

FAR EASTERN ECONOMIC REVIEW

Vol. V.

Hongkong, November 24, 1948

No. 21

FROM THE CONTENTS:—

Malaya—U.S. Relations

Singapore Reports

China's Industries

Hongkong Business Conditions

Outline of Japanese Postwar
Economy

New Japanese Govt.

Export Regulations of Japan

FINANCIAL CONDITIONS & PROBLEMS OF FAR EASTERN COUNTRIES

The Economic Commission for Asia and the Far East, under the United Nations' Department of Economic Affairs, has recently completed its Economic Survey for 1947 which covers developments in the countries of the Far East and South East Asia. A preliminary edition of the 1947 Survey was given limited circulation at the third Session of the Commission held in India, in June 1948. Following is a condensed report dealing with conditions of banking and currency in countries of the Far East and South East Asia.

• • • • •

SALIENT FEATURES OF CURRENCY & BANKING IN THE FAR EAST & SOUTH EAST ASIA

(1) Inflationary pressure has continued in varying degrees in nearly all countries. China and to a lesser extent Japan are still in the grip of hyperinflation. In most of the other countries, inflationary pressure has considerably decreased, but not quite died down.

(2) There has been a drift from automatic to managed currency systems. China and Japan have already managed currencies, but exchange standards obtaining in India, Siam, the Philippines and other places have tended to be modified in varying degrees. These countries are apparently feeling that exchange standards with 100 per cent reserves do not give them full freedom to expand or contract the currency according to their own needs. The movement thus reflects the new attitude to money, namely, that it is a tool to be freely used for promoting full employment and maximum production.

The Philippines have already decided to drop the existing dollar exchange standard and adopt a managed currency, managed by a new central bank. In India also the sterling link was *de jure*, if not *de facto*, given up by the amendment of the Reserve Bank of India Act in 1947, which freed the

Bank from unlimited obligation to convert rupees and sterling. It will now, under the Government's direction and consistently with the country's obligations to the International Monetary Fund, buy and sell all foreign currencies at rates to be specified from time to time. In Siam and Indo-China also, exchange rates had to be revised, which again perhaps indicates that the sanctity of fixed exchange rates, a feature of exchange standards, is breaking down.

The establishment of central banks or the move towards their establishment may also be interpreted as a step towards adoption of managed currencies. Most central banks today have power to expand or contract currency at their discretion. This power is almost becoming a part of the definition of a central bank. New central banks have been or are tending to be established. Siam established one in 1944 and Burma one in 1947. The Ceylon Government also has declared its intention of establishing one in the near future. The Philippines are on the threshold of establishing one. Indo-China, although she is not contemplating any central bank yet, is planning to introduce a slight measure of "management" in her existing exchange standard. The powers and functions of these central banks, established or proposed, vary, and they do not or will not in every case mean the introduction of a managed currency. Indeed, the Burma bank, for the time being at least, will not be a bank of issue at all. The issue which will continue to be on the basis of rigid convertibility with sterling, will remain in the hands of the existing Currency Board which may almost be described as a branch of the Treasury. But that in general the establishment of central banks implies an assault on the prevailing exchange standards, can hardly be doubted.

The introduction of trade and exchange controls has already modified the rigidity of exchange standards to an appreciable extent, but quite apart from that, the trend seems to be to replace exchange standards by managed currency systems.

The movement has been possible largely as the result of greater political freedom of the countries concerned. Political dependency almost automatically meant exchange standards. With larger political powers, it is now possible for these countries to free their currencies from rigid links with the Metropolitan currencies. The departure also therefore signals a weakening of existing currency areas, such as the Sterling Area and the French Monetary Area.

(3) There has been a movement towards greater control and co-ordination of credit, and unification of currency and credit administration. This movement is not quite the same as the movement for the adoption of managed currencies. It is more specifically a movement for central banks, with or without managed currencies. A central bank can be created with full powers to manage the supply of money, but it can also be created for the more modest object of guiding, assisting and controlling the other banks, and issuing notes according to rigidly laid down rules. Hitherto, banking has been somewhat uncontrolled and decentralized and note issue has been divorced from credit administration if any. This lack of control over credit and divorce between currency and credit is now sought to be remedied by establishing new central banks or by giving greater powers to the existing ones. To an extent, exchange control has necessitated this centralization, but it would have in any case come.

(4) The considerable expansion of banking is apparent rather than real. The number of banks and the volume of funds which they handle, have both increased. The increase has, mainly been due to inflation and the rise in money incomes. As inflation stops or reverses itself, bank deposits will probably tend to fall. The process may impose a great strain on the weaker banks. It is partly because of this and partly because of civil disturbances and other causes that banking in India, for instance, received in 1947 a slight setback.

Banking progress generated by inflation is more apparent than real. If

1947 bank deposits were corrected or deflated by the rise in prices, they would for most countries, be found to be not higher than the 1939 deposits. For China, they would be found to be a mere fraction. This shows that in real terms, the part played by banks in the economy has diminished, rather than increased.

(5) There has been a tendency for banking to be more and more nationalized, both in the sense of the State starting or taking over banking institutions and in the sense of local banks acquiring more and more of the country's banking business relatively to foreign-owned banks. The new central banks in Siam and Burma are both government banks, and so is going to be the proposed central bank in the Philippines. In India, the government has decided to nationalize not only the existing central bank (the Reserve Bank of India) but also the leading commercial bank (the Imperial Bank of India). In China, the government banks are increasingly dominating the banking scene.

* * * *

MONETARY INFLATION IN FAR EASTERN COUNTRIES

During the war, the financial machine in all countries in the Far East and South East Asia was more or less ruthlessly used for war purposes. Budget deficits, created by heavy military expenditure, were financed mainly by inflating currency. In some countries, for instance, India and Ceylon, the expenditure was incurred partly on behalf of Allied governments and consequently described as 'recoverable.' But the internal effect was the same. The expenditure was financed by newly printed notes, for which Allied governments credited the country with foreign balances. The prevailing exchange standards in these countries proved very handy for this operation. Thus arose the so-called sterling balances to the credit of these countries. In the same fashion, Indo-China accumulated large franc balances. These balances have not, however, proved to be quite so freely and easily 'recoverable' (or convertible into goods and other foreign currencies) as was originally expected. In addition to such 'recoverable' expenditure, each country also spent very large sums on its own account. The combined budget deficit on domestic and 'recoverable' accounts grew cumulatively into very large figures over the period of the war and as its counterpart, took currency expansion to new heights. As far as possible non-inflationary war finance was also used, but its scope was limited. The main reliance had to be placed on currency inflation. Inflation of legal tender currency accompanied and induced inflation of credit. The total money supply (notes, coins and deposits) thus enormously increased, and with it prices. In China the process has reached proportions unique in Oriental history.

In the post-war period, this inflationary process rapidly declined and in 1947 was tending to come to a halt, except in countries like China and Japan. In the Philippines, Ceylon and Indo-China there has been a slight decline in circulation from the 1945 level. But the inflationary pressure has not quite died down and still persists in various degrees in most of the countries. While budget deficits, high rates of private investments or spendings of accumulated liquid assets are increasing effective monetary demand, supplies of consumer goods are either not increasing at all or increasing at a much slower rate. In certain countries, for instance India, the production slowdown has assumed the proportions of a production crisis. It would be a mistake to suppose that inflationary pressure is coming exclusively from the demand side. Shortage of goods is often equally important. In Japan, for example, a serious fall in production has given a considerable stimulus to inflation.

The extent to which particular factors may be the main cause of inflation varies in the case of each country. In China, for example, which is in a category of its own by reason of the violence of its inflation, the principal factors are undoubtedly the deficit financing of the civil war and the accompanying failure of confidence in the currency. In Indonesia and Indo-China also internal conflict has been an important inflationary factor, while in India, civil disturbance and great movements of refugees, leading to increased government spending, have played a significant part. In certain countries, for instance Malaya and Ceylon, heavy subsidization of food has made great demands on government revenues. Expenditure on salary and wage increases and on rehabilitation and reconstruction programmes are two general factors which have been present in varying degrees nearly everywhere. Development can be financed by non-inflationary methods also such as foreign loans, foreign balances, internal loans and taxation. But their scope is limited. For countries like India and Ceylon which accumulated fairly large sterling balances during the war, the partial inconvertibility and blocking of the balances has reduced their usefulness as a source of development finance. The amount that can be raised by internal loans and taxes in countries where incomes mostly border on the subsistence level, is also limited. Direct taxation again can do little to solve the problem of inflation of food prices, because taxation of higher incomes which it implies, hardly reduces the demand for food. Development in these countries thus can hardly be adequately financed by non-inflationary methods. Undeveloped countries seem to be faced with a choice between two evils, either to remain undeveloped or develop with some use of inflationary finance.

Spending of accumulated liquid savings on consumption and investment goods has also been a general factor. This demand was for one reason or another pent-up during the war, but after the war with the relaxation of controls on expenditure, it is exercising its in-

fluence on prices. Controls on private investment have also been largely relaxed and the rate of such investment has increased. The cheap money policy followed in most countries has helped to stimulate this investment.

Inflation can be checked by monetary and fiscal measures, such as reduction in government expenditure, surplus budgeting, savings campaigns (to drain off and impound purchasing power), and monetary reforms designed to prevent easy expansion of currency, to freeze or immobilize cash balances, to restore confidence in money. But failing such measures, direct control of investment and of price and distribution of essential consumption goods may be helpful. These are however, not only administratively difficult to enforce, but may to some extent even distort the production pattern. Expenditure on essential goods being controlled, incomes tend to be largely spent on non-essential goods, whose prices consequently increase. As a result, investment tends to flow into these high-price channels. Unless the distribution of investment is rigidly controlled production takes to wrong lines and genuine recovery is delayed.

Control of investment and consumption has been and still is carried out in varying degrees. It has not done much to check inflation or its evils. No solution has also been possible through an increase of imports or of home production. Imports, although they have tended to exceed exports, have still remained low because of foreign exchange shortage and of slow recovery of production in exporting countries.

Although inflation in most countries has now stopped or considerably weakened, a legacy of problems left behind by past inflation is still hampering recovery. For instance, income readjustments are yet incomplete. In particular, wages of large sections of labourers are still lagging behind prices, with the result that labour discontent is hampering production. Prices of essentials being chained down, resources are tending to move into the production of non-essentials. Since in most cases the internal price-cost structure has risen higher than in countries with which trade is done, the currencies, most of which have remained pegged at pre-war levels, have become over-valued in exchange. In the absence of adequate controls, this tends to encourage imports and discourage exports. It is not the only, nor perhaps the most important factor causing an import surplus pressure on these economies, but it has certainly been a major factor.

Inflation normally reflects itself in higher prices and lower rates of exchange. The rise in prices, however, has been to some extent kept in check by price controls and rationing. Still, the rise has generally been high. Free (or rather black market) prices have of course risen much higher. Exchange, on the other hand, has been more rigidly controlled. The demand for foreign exchange has been artificially kept down by import and exchange control. Export of capital has generally been banned or strictly limited. Foreign exchange proceeds from exports, on the other hand, have been

more or less commandeered. It is only by these means that it has been possible to maintain exchange standard currencies at their pre-war parities in countries like India, Burma and Ceylon. No devaluation has been necessary, although it is not sure if without some measure of devaluation these countries will be able to achieve complete and lasting equilibrium in their balance of payments.

In China, because of the extraordinary speed and volume of inflation, exchange rates have defied stabilization. There has been, since the beginning of the war, a series of devaluations. In addition, the government has been compelled to create two official rates of exchange, one for very limited transactions and the other (a much higher one) for all other permitted transactions. Since even the second rate has been much lower than what demand and supply of foreign exchange would justify, a third illegal rate, the black market rate, has also been in existence. In the place of a single rate this has evolved a triple rate exchange system. And all three rates have, as inflation has proceeded, been going downwards steadily.

The supply of foreign exchange in certain countries has been kept up by foreign loans and gifts, and continuing foreign military expenditures. A good example is the Philippines where considerable receipts are coming from this source. When this flow dries up, the balance of payments position will worsen, straining the exchange rate.

In Siam and Indo-China also the old parities have been lowered. In Indo-China the devaluation of the franc, to which the piastre is linked, has meant an additional dose of devaluation for the piastre in terms of sterling and the dollar. The fact that, in most countries, a fairly high black market rate still exists, obviously shows that the official rates do not quite equalize demand and supply.

An interesting phenomenon in China has been that the fall in exchange has lagged considerably behind the fall in the internal value of the currency (that is, rise in prices). Between 1939 and 1947 prices have risen some 50,000 times while exchange (official) has fallen some 4,000 times. The explanation, in the first place, is that the official rates are not the true rates. They are much below the free market rates. Secondly, even illegal free market rates have lagged behind what relative purchasing powers would suggest because of difficulties of obtaining foreign exchange and foreign goods. It is not only difficult to obtain import and exchange permits, but also to get down goods from abroad because of slow production recovery in exporting countries, transport bottlenecks, etc. This keeps down the demand for foreign currency.

Inflation normally should produce full employment. But the fact that unemployment still more or less persists in nearly all countries or is even tending to increase in some, is paradoxical. It seems to be explained by three reasons. First, the scarcity of technological and managerial ability is prevent-

ing industry to expand fully and employ the due quota of labour. The demand for labour is there latent, but the scarcity of co-operating factors is obstructing its full expression. This is, almost by hypothesis, to be expected in undeveloped countries. Secondly, a part of this unemployment is normal frictional unemployment. It will always remain. Thirdly, employment in export (foreign-market) industries, which constitutes a large sector of the whole field of employment in these countries, is normally less sensitive to injections of money into the economy than home-market industries. The immediate effect of such an injection is to increase the demand for imports. The demand for exports only rises when and insofar as the foreigner uses his higher purchasing power to buy the country's exports.

Interest rates have generally been low. The supply of money-to-lend has been ample because of issue of more currency or because of short period government borrowing from banks which has increased their credit-creating powers. On the other hand, the demand for loans has generally been low because of uncertainty about the future, restrictions on capital investments, difficulties of obtaining capital goods and other factors. Governments have often maintained the prices of their bonds by buying in the market. The main object of this cheap money policy has been to facilitate large-scale government borrowing.

In China, due to the fast pace of inflation, it has been impossible to keep interest rates too low. While for instance, in India the discount rate for three months Treasury bills has been between .40 and .50 per cent, in China it has been generally about 20 per cent. Interest offered on long-period bonds in India has been in the region of 3 per cent specially charged with supplying long-term, while the three-year Chinese Treasury notes issued in April, 1947 bore 20 per cent. This is only to be expected. At a time of fast rising prices, it pays to borrow money at high rates because goods bought with borrowed money go up in value very fast. On the other hand, the lender insists on compensation for the shrinkage of purchasing power of his principal when repaid. Official interest rates in China, though high, have however not caught up with the rise in prices. Consequently, the money market has been chronically tight.

* * *

SUMMARIES OF CONDITIONS IN FAR EASTERN COUNTRIES

Burma

Two important developments took place in Burma in 1947.

(i) On 1st April, Burma established a separate currency of her own, giving up the use of Indian currency. The new Burma rupee was linked to sterling at 1/6d. Burma thus continued the exchange standard with the same rate of exchange as before, only there was now a direct link with sterling

instead of a link through India. The issue and redemption of notes was vested in a Currency Board of five members appointed by the Government.

On 1st April, the Reserve Bank of India which issued notes and acted otherwise as a central bank, terminated its operations in Burma. To take over some of its central banking functions pending the establishment of a central bank, government established a Central Treasury to accept deposits from other banks, to make payments on behalf of the government and to provide facilities for remittance to places outside Rangoon.

(ii) Necessary legislation to create a central bank was passed in October. The bank, called the Union Bank of Burma, was actually established in January 1948. It is not a full-fledged central bank, but probably will be developed into one later. It is banker to the Government and the other banks, but it is not in charge of the note issue. That function remains in the hands of the Currency Board. The bank is a government bank, all the capital being provided by the Government, and all its seven directors being appointed by it. It is also reported that 'it will undertake certain forms of commercial banking.'

The establishment of the bank presumably ends the pro-tem central banking functions of the Treasury.

Burma saw very heavy inflation when she was under Japanese occupation. After liberation, the Japanese currency issues were repudiated and this brought down prices. Since then, however, inflationary pressure has again reappeared and prices in 1947 were higher than in 1946.

China

The dominating event in China has been inflation.

China changed from a silver to a paper standard in 1935. The new currency (Fapi), issued by the four government banks, was backed by ample reserves and maintained its exchange value of 1 yuan (also called the Chinese National Dollar,) to 1/2½d. For one and a half years after war began with Japan, inflation was moderate, but thereafter it increased very fast. The reason for the inflation was war expenditure which could not be financed in any other way.

In July 1942, the note issue was vested solely in the hands of the Central Bank of China.

No statistics of note issue have been published.

In the face of inflation, exchange rates fell. Attempts have been made by exchange and trade controls to keep the demand for foreign exchange equal to the supply and prevent changes in rates, but without success. Two developments took place. (1) As inflation progressed, the exchange rate fixed by the Government had to be revised from time to time, the yuan was progressively devalued. (2) In the place of one single rate, there evolved in the course of time, three. Side by side with the official rate a free market rate developed early, because the official rate (yuan per pound sterling or U.S.\$)

was too low, it undervalued foreign currency and overvalued the yuan, and government could not control demand and supply of foreign exchange.

At certain stages the government recognized the open market rate and tried to keep it at desired levels (this function being given to an Exchange Equalization Fund), at others it tried to ban and suppress it. Thus emerged two permitted rates, the 'official' which was very low (in yuan per U.S.\$) and the 'open rate' which was higher. Exchange at the 'official' rate was given for very limited purposes. But since both rates were lower than what supply and demand justified, a third rate, the black market rate, also developed.

Main developments in 1947:—

On February 17th, the 'official rate' was changed from 3,350 to 12,000 yuan per U.S. dollar; the free market in foreign exchange which had been tolerated by the Government was banned under severe penalties. The new rate was actually higher than the prevailing free market (it undervalued the yuan, instead of overvaluing it). This was done deliberately in order to step up exports and for a time it showed results. The black market in exchange disappeared and exports expanded rapidly. The export-import ratio increased from 37.7 per cent in February to 79.6 per cent in May.

Continuing inflation soon made the new official rate (12,000 yuan) also unrealistic and out-of-date and a black market rate increasingly outpacing the official rate again developed. Consequently on August 17th, 1947, new foreign exchange and trade regulations were introduced and a double exchange rate was set up. The official rate was retained at 12,000 yuan per dollar, but it was to be used for a very limited range of authorized imports, such as cotton, rice, wheat and wheat flour, coal, coke and fertilizers. Side by side with the official rate, an "open" rate was established (or rather re-established). This rate was to be fixed by the Stabilization Board appointed by the Central Bank and it was to be altered from time to time according to market conditions. It was to be used for all other licensed imports and approved financial transactions. The general rigid licencing and control of imports introduced in November 1946 was retained.

The first open market rate fixed under the new scheme on August 17th, namely 39,000 yuan per dollar, more or less approached the prevailing black market quotations. But later, although it was revised upwards 11 times during the year, it deviated increasingly from them. At the end of December 1947, the open market rate was 90,000 and the black market rate 145,000 yuan. Since then, both have climbed much higher.

Interest rates, although they have risen high, have not caught up with the rise in prices. In terms of real goods, interest rates have been negative.

The rise in prices has been proportionately much greater than the rise in money supply. This is largely due to increase in velocity of circulation. The fall in production has also contributed to it to some extent.

In banking, three main developments have taken place during and after the war.

(1) The banking system has become more centralized, both by the organization of the Joint Board of Four Government Banks and concentration of note issue and other powers in the central bank. In 1947 this tendency was strengthened.

(2) The importance of the government banks in the banking system has enormously increased. In 1946 the total deposits of the government banks were five and a half times that of the commercial and savings banks.

(3) There has been a great expansion of banking both in number and in the size of their business. This is mainly a consequence of inflation. If account is taken of the rise in prices, business has fallen to a fraction of the prewar amount.

Indo-China

Inflationary pressure may be said to have been arrested, if not altogether stopped, in Indo-China in 1947. The budget showed only a small deficit. The note issue showed no increase. Indeed, it showed a 3 per cent decline from 1946. The decline was due to the writing off of certain issues which failed to return on being recalled. Prices (except wholesale prices of imported goods) and costs of living, however, rose higher than in 1946, indicating that inflationary pressure from other sources such as increase in bank deposits and release of accumulated savings were still in existence.

The exchange rate remained steady throughout 1947. Indo-China's currency, the piastre, is on an exchange standard. Before the war it was tied to the French franc at 1 piastre for 16 francs. During the war, the piastre maintained fairly fixed rates with the U.S. dollar and the pound sterling. In December 1945, when the franc was devalued, the piastre was fixed at 17 francs. At the same time, the official rate for the U.S. dollar which was 4 piastres in 1938 was increased to 7.01. It was this revised rate which remained unchanged in 1947.

Indo-China has an adverse trade balance because of the low production (due to civil war and other causes) and because of high price-cost structure (due to inflation). The deficit is being covered by French Government payment on military and rehabilitation account. Consequently there is not much strain on the exchange rate.

An important decision made during the year was to take away the note issue from the Banque de l'Indochine and vest it in a Currency Board (Institut d'Emission) appointed by the Government. The Banque de l'Indochine is the leading commercial bank in the country and not a government or a central bank. It enjoys at present the sole right of issuing notes, on the basis of fixed convertibility of the piastre with the franc. The main features of the new scheme are as follows:

(1) The Board will be the sole authority of issue.

(2) The piastre will be linked to the franc on the existing parity, but the Board will have power to modify the rate according to circumstances.

(3) The Board will not be a central bank, discounting bills or controlling credit operations of other banks.

(4) Not less than 33 per cent of the reserve against the note issue must be in francs. Not more than 33 per cent can be in government securities ('advances allowed to the Treasury').

The intention thus seems to be to retain the franc exchange standard with certain safeguards and a certain amount of elasticity, and not to establish a managed currency or a central bank.

Indonesia

In Indonesia notes are issued by the Java Bank. In March, 1939 the total issue in circulation was 198.6 million guilders. During the Japanese occupation the currency was considerably inflated. After re-occupation, the Government issued a new NEI guilder. Japanese invasion currency was withdrawn at the rate of 33 Japanese guilders to 1 new guilder while old bank and treasury notes were taken at par or credited to blocked accounts.

In the post-war period, the note circulation has steadily increased, chiefly because of government deficit financing. At the end of 1947, the total circulation stood at nearly 1,200 million guilders. It was thus roughly six times the 1939 circulation.

The index of prices of 19 foodstuffs at Batavia in January 1948 (July 1938 being taken as 100) was 1,940.

The exchange rate has also changed. Before the war the NEI guilder was at par with the Netherlands guilder (which in 1939 had an exchange value of 1.83 guilders per U.S. dollar). In 1946 the NEI guilder was devalued, following the devaluation of the Netherlands guilder. The new rate is 2.66 guilders per U.S. dollar or 37.7 U.S. cents per guilder. Contrary to pre-war custom, however, there is no undertaking now to fix this ratio by pegging the NEI guilder to the Netherlands guilder. No par was communicated to the International Monetary Fund owing to the present difficult situation. The automatic exchange standard may be modified.

On 30th October, 1946, the Indonesian Republic introduced its own bank notes which, however, had no fixed parity with any other currency.

Banks are still reconstructing their records and no yearly reports or balance sheets are yet published. The Government is taking measures to establish a Recovery Bank to be specially charged with supplying long-term credits.

Japan

The main point to report about Japan in 1947 is that inflation has continued high. The original impulse for this inflation seems to have come mainly from fall in production. Japanese industry emerged shattered and paralysed from the war. Production in 1947, though higher than in 1946, was still only 41 per cent of the 1930-34 annual average. The fall in production, little compensated by imports, put up prices, wages and costs. Both government and employers consequently required more money. The use of more money put prices and costs still further up and so the spiral went upwards. It was, to start with at least, more a case of prices chasing wages (and other costs) than wages chasing prices.

However, whatever originally caused prices to rise, the fact remains that the government has been meeting the resulting budget deficits largely by issuing notes. It did not try much to freeze or reduce wages (which would have probably checked the spiral at its beginning) or syphon off excess purchasing power by adequate taxation and borrowing.

Thus although the original cause of the inflationary pressure might have been the absolute shortage of commodities, continued increases in the levels of purchasing power and government deficit financing, have been important contributory factors to it.

The inflation is reflected in the increase of the National Debt on the one hand and of the Bank of Japan's holding of government securities on the other. Since the government was unable to cover the deficits by borrowing genuine savings from the general public (which would have had a deflationary effect), it had to borrow mainly from the Bank of Japan (against which the Bank issued notes) and to some extent also from the commercial banks (which used it as a basis for expanding credit).

During 1947, the note issue increased by 125.7 billion, the Bank of Japan's holding of government security by 103.9 billion and the National Debt by 117 billion.

Prices have kept pace with changes in money supply. Following the currency conversion in March, 1946 (when the old currency was recalled and new yen notes were issued at the rate of yen 100 for each person, the balance going into restricted bank accounts), the price level remained steady for about eight months. But later, as the note issue expanded, it began to race upwards again, from December 1946 to April 1947 at the rate of 10 per cent per month, from May to July 1947, at 24 per cent, and thereafter more slowly. An alltime peak in effective (that is, taking into account official as well as black market prices) consumer prices was reached at the end of May 1946.

Malayan Federation and Singapore

Malaya is on the sterling exchange standard, the Malayan dollar being linked to the pound at 1 Malayan dollar for 2/4d. The issue and redemption of currency is in the hands of a Currency Board appointed by the government.

The changes in the note issue are shown by the following figures: (in million Malayan dollars).

January, 1939	15 February, 1942	31 December, 1946
105	221.9	387.7

Judged by these figures, inflation does not seem to have been so severe in Malaya as in most of the other Far Eastern countries. Part of the rise in note issue in 1946 was due to Malayan dollar notes replacing the old British North Borneo and Sarawak currencies.

The retail price index has been 428 in 1947, taking 1939 as 100.

The Philippines

In the Philippines the year 1947 started with a strong deflationary tendency. Monetary circulation and prices (as indicated by the costs of living) both fell appreciably. Circulation started rising again later in the year, but the cost of living remained low. Budgets were more or less balanced, the 1946 budget even showing a handsome surplus. Whether all this signals a definite deflationary movement is too early yet to say. In spite of increases later in the year, total money supply and prices at the end of 1947 stood lower than at the end of 1945.

The Philippine currency was heavily inflated during the Japanese occupation, but by December 1945 after the repudiation of the Japanese issues, currency in circulation stood at about 5 times the pre-war level. Thereafter there was steady contraction throughout 1946 and part of 1947. Prices, however, fell faster than the money supply, indicating that there was simultaneously a rise in the goods supply through increased production and imports. The Philippine peso being linked to the U.S. dollar (at 1 U.S. dollar=2 pesos) contraction (or expansion) of currency is normally (unless interfered by trade, exchange and other controls) linked with unfavourable (or favourable) balance of payments. The Philippines have recently been importing much excess goods and services which have been partly covered by American payments on military and other accounts. But they have been also partly paid out of foreign exchange holdings, and the contraction of foreign exchange holdings is reflected in the contraction of circulation at home. The Philippine price-cost structure, although it has fallen since 1945, still seems to be too high to equalize exports and imports and there is an import-surplus pressure on the economy. This pressure is likely to continue unless money supply and prices are still further lowered. The Philippine economy has so far withstood deflation without any untoward effects.

The currency being on an exchange standard, exchange rates have remained unchanged.

Perhaps the most important development in 1947 was the decision to establish a central bank. So far the banking system has been decentralized and uncontrolled, and currency policy not co-ordinated with credit policy. Indeed, there has been little scope for any currency 'policy' at all, the currency being on the automatic exchange standard. The new central bank will change the situation completely. The main features will be as follows:

(1) It will be a state bank, managed by a board appointed by the government. The Finance Secretary will be ex-officio president of the board.

(2) It will control currency as well as credit.

(3) In regulating money supply, it will be guided by the general economic interests of the country and not by any rigid convertibility or reserve requirements. It means therefore the abandonment of the dollar exchange standard which prevents expansion or contraction of currency according to the internal needs of the country. The bank can change the existing par value of the peso. It can also alter the ratio of gold or foreign exchange holdings to the note issue. It can also hold reserves in inconvertible (non-gold) currencies.

A novel feature in the bill is the insertion of 'guiding principles' according to which the bank is to regulate the money supply. They boil down to promotion of the best interest of the country, in other words full employment and maximum production.

(4) It will have wide powers of credit control. It will have power to raise or lower reserve ratios of the member banks and fix upper limits to loans and investments. It will have some power of selective or qualitative credit control which is not yet common for central banks to possess. It can restrict credit given by banks to importers of certain classes of commodities (for instance luxury goods) by raising the margin of cash required for letters of credit.

The bank thus would have many novel features. It is specially argued that the freedom to expand or contract currency, irrespective of gold or foreign exchange holdings, is very desirable for undeveloped economies. Under exchange standards, any excess acquisition of foreign exchange (by net exports) tends to expand currency. The internal economy should be insulated from this effect. An undeveloped economy must be able to build up foreign reserves (to be used for development later) without any harmful effects internally. The Philippine bank will have power to issue its own obligations against such additional earnings of foreign exchange, so that they can be sterilized.

Siam

Siamese currency was heavily inflated during the war, but after the war currency in circulation has been more or less kept steady. The note issue in 1939 March, was 150 million baht. In January 1946, it was 2,118 million, in January 1947, 2,126 million and February 1948, 2,203 million. The issue in 1947 was thus broadly 15 times that of 1939. No price indices are available but unofficial sources report that cost of living was 13 times higher in 1947 than before the war.

Before the war Siamese currency was on the sterling exchange standard at 11 baht per pound. Developments during and after the war have led Siam to establish a more or less managed currency system under a central bank (The Bank of Siam). Before the establishment of the Bank, paper currency was issued by the Government. The Bank is a government bank (established in 1944) with general supervision vested in the Minister for Finance. It has the sole right of issue and in its banking department it transacts such kinds of business as pertain to a central bank. Every bank must keep with it at least 5 per cent of time liabilities. It is also the government's banker.

Before the war the baht was pegged to the pound sterling at 11 baht per pound. In 1946 when banks reopened for foreign transactions, the rate was fixed at 40 bahts per pound and 10 bahts per U.S. dollar. There was thus a certain measure of devaluation. This official rate, however, overvalued the baht and the demand for foreign exchange exceeded the supply. And since the Government could not control all demand and supply, an open market rate developed. In August 1947, the open market rate was 20-22 bahts per U.S. dollar and 75-78 bahts per pound. Trade and exchange control has limited the disparity between demand and supply of foreign exchange to some extent, but has not quite removed it. Importers may apply for foreign exchange at the favourable official rate (1 U.S. dollar=10 baht), but dollars may also be bought at the open market.

Before the war, currency reserves were predominantly in sterling. At present they include a large amount of dollar assets which Siam acquired by exporting rice to Korea and the Philippines and rubber, teak and tin to U.S.A.

On September 17th, 1947, Siam joined the 'Convertible Sterling Group' which implies that she can now in effect transfer all her current sterling freely to the Sterling Area countries and to other countries with the Convertible Sterling Group. Transfers are allowed from Sterling Area countries into the Group, but not the other way. It of course gives no convertibility of Siam's sterling holdings into dollars.

TRADE RELATIONS BETWEEN MALAYA AND THE UNITED STATES

Sir Franklin Gimson's Outline of Rational Economic Policies and genuine Malayan-U.S. Cooperation

American oil company executives, who were recently holding a nine-day conference in Singapore, heard from the lips of the Governor of Singapore, Sir Franklin Gimson, strong criticism of American action in regard to natural and synthetic rubber and of American policy in subsidising the smelting of tin in Texas. The members of Socony Vacuum Corporation wound up the conference with a dinner at Sea View Hotel where Sir Franklin Gimson was the guest of honour and he addressed the gathering for 47 minutes on the subject of United States-Malayan trade relationships, with especial reference to their effect not only on Malaya itself but also on the economy of South East Asia.

After reciting historical data relating to Malaya Sir Franklin proceeded:—"Let me first outline the extent of the economic bond which unites these two territories—the one primarily in the role of a producer of essential raw materials, the other in that of a large consumer of them. Everyone is aware of the important part which Malaya plays as a member of the sterling area in these days of acute United States dollar shortage, but it may not be fully realised that in 1947 Malaya, of all contributors to the sterling pool, exported most to the United States and in doing so developed a volume of trade with the United States which was greater than that which existed between that country and either the United Kingdom or Australia. Moreover, during that difficult year, Malaya was the only member of the sterling area which enjoyed a substantial favourable balance of trade with the United States. These facts are particularly pleasing at the present time, but they must not be allowed to hide the very large dependency of Malaya on the continued prosperity of the United States of America. In 1947 that country purchased nearly half Malaya's exports of rubber and more than half its exports of tin; of total Malayan exports the United States took one-third.

"It is no wonder then that nearly every businessman in Malaya follows with close attention the developments in the American economic and political scene, for on them depends his livelihood and standard of living. The availability of local and foreign capital for investment, the import of consumer goods, the extension and development of existing productive and commercial concerns—all depend directly on the prosperity of the rubber and tin industries and on the willingness of the United States to buy.

"This is not to say, of course, that the interest is one-sided. The United States found in the past and might well find again in the future, that it is not easy to do without supplies of Malaya's two staple commodities. The course of post-war negotiations has

stressed this factor with its emphasis on stock-piling and the establishment of substitute industries in the United States. It must not be overlooked, however, that these last are more in the nature of strategic precautions rather than of long term aims dictated by economic expediency, and it is my desire to warn against undue emphasis of the advantages to be gained from the uneconomic accumulation of strategic productive capacity over a policy which makes the best of proved existing facilities. It is my conviction that the interests of United States national defence can be met without disrupting the sound foundations of economic partnership which have led to the prosperity and satisfaction of both sides in the past.

"The prime endeavour of all importing and exporting countries should be that of providing for and maintaining stable trade relationships at as high a level as possible. Only by long term stability of this kind can the world regain its lost equilibrium and pave the way for a prosperity which is mutual and not based on a series of gifts donated by the prosperous to the needy. Trade stability and confidence in the future are of special significance to Malaya, dependent as it is mainly on the production of two raw materials which are subject to the sometimes violent fluctuations of consumers' demand. Unlike some commodities the production of rubber and tin is a slow and expensive process requiring a considerable investment of capital, energy and time before any visible results are achieved. A natural consequence of this is that once production is under way, it is not at all easy to change the rate of output. The consumption of these commodities, however, is influenced by conditions which are liable to far more rapid change. This incompatibility between supply and demand is inherent in the rubber and tin trades but it should not be aggravated by restrictions and controls designed to benefit the consumer at the expense of the producer. Such devices as buffer stocks and restriction of production are possible means of combating this disequilibrium in cases of emergency, but the artificial encouragement of over-production and interference with normal channels of supply tend to hasten the disease rather than provide for its cure.

Difficulties of Rubber Estates

"I would like to take this opportunity of outlining the difficulties now being encountered by the rubber and tin industries and of showing briefly how they may best be solved. In three years succeeding the Japanese occupation the rubber industry has shown a remarkable recovery and

that combined with America's desire to replace her depleted stocks led to exports of Malayan produce in 1947 which were about double those of 1938. On the face of it this would appear to be extremely satisfactory, but closer investigation into the current situation reveals certain disturbing factors which, if not remedied in the near future, may have disastrous results on the Malayan economy. In this respect I refer particularly to the question of price which in 1947 was on the average, below that of 1940 and recently only slightly higher. This would not be the subject of special comment had the price of staple consumer goods followed a similar course. Unfortunately this has not been the case and the result has been that in 1947, one pound of rubber could only buy approximately one quarter of the rice, flour, sugar and textiles which it could before the war. It is wrong to suppose that the whole or even a large part of this reversal in the terms of trade could come out of the pockets of "estate" capitalists. In 1947 smallholders produced about 40% of Malaya's total rubber output and yet, in spite of the fact that they are estimated to have retained 90% of the proceeds from their crops, their standard of living is noticeably lower than it was before the war.

"On the large estates, Indian labourers received in 1947 nearly three times the wages they received pre-war, actually \$1.30 compared with 53 cents in 1940 but even this large increase in wages has been insufficient to enable them to maintain their pre-war standard of living. I stress this point because people living in Singapore are apt to forget that behind the outward signs of prosperity lie the elements of hardship and discontent. It must not be forgotten that the back bone of South East Asia consists of these agricultural people working hard and uncomplainingly behind the scenes. These are the people who must provide the answer not only to the economic difficulties of the region but possibly also of the world. They deserve a just reward for their efforts.

"If we examine the factors determining the present price of rubber we will find that it is largely influenced by stipulations made in the United States regarding the compulsory use of a certain percentage of synthetic. It is said that this policy is necessitated by strategic considerations, but it may be argued in reply that sufficient production of synthetic rubber for this purpose could be achieved under free market conditions. It is clear that the price (and therefore the consumption) of natural rubber must be limited by the premium which consumers are prepared to pay over the price of synthetic. There was a recent consensus of opinion amongst large American manufacturers (accounting for over 80% of rubber consumers in the United States), that, if the price of natural rubber rose to a level of four U.S. cents above that of synthetic, consumption of the latter would amount to 30% of the total; if the price of natural rubber rose to six U.S. cents above synthetic consumption of the

latter would amount to 35% of the total. Now, under both these conditions, the output of synthetic rubber would be maintained at a level above estimated strategic requirements. From this it would appear to follow that control over the use of natural rubber unnecessarily restricts its price. What we in Malaya are wondering is: Is this policy justified at a time when the United States of America has recognised the necessity of granting Marshall Aid to war ravaged territories in order to help them rehabilitate themselves? Could not the same object be achieved more satisfactorily by a resort to those principles of free trade of which the United States is the outstanding champion? To emphasise my point, the United States charge prices for wheat, cotton and tobacco which are 279%, 296% and 143% over pre-war prices as against a comparative increase for rubber of 11%.

"Some levelling up of the disparity between the two sets of prices would assist the availability of gold dollars in consumer countries, such as Malaya, and enable them to increase their intake of American manufactured goods which is of primary importance to American trade as a whole.

"Malayan rubber production has shown a remarkable resilience since September, 1945. Why not give the producers (and, indirectly, that Asian population which has experienced such hardships under the Japanese occupation), a chance to reap the full benefits of their outstanding achievement?

Dilemma of Tin Smelters

"Similar problems involving a divergence of interest between Malaya and the United States arise over the smelting of tin. These problems are mainly concerned with the maintenance of the heavily subsidised smelting capacity in the United States for strategic reasons. Now, there is a surplus of smelting capacity in the world today and it would appear that very strong arguments are required to justify any arrangement which would tend to make it a feature of permanent significance. The solution to the immediate problem may be the provision of some tin ore to enable the American Government smelter to remain in production until the world once more settles down while at the same time permitting Malayan miners and smelters to enjoy the fruits of their many years of mutual co-operation and their market for Straits tin, the quality of which is amongst the highest in the world.

"We are, therefore, somewhat exercised that a subsidised American Government plant should become a menace to the economic and soundly based smelting industry in this country. One of the main endeavours of the Singapore Government has been to safeguard the interests of its established industry, not only because of the important role it plays in the local economy.

"Negotiations between the United States and the United Kingdom acting on behalf of Malayan interests have

been proceeding for some time and efforts are being made to find a satisfactory solution to this problem.

"Whatever the outcome of current negotiations, confidence in the future on both sides of the Pacific is again the keynote to prosperity and mutual understanding; this would best be achieved by the adherence of both parties to an agreement which was likely to remain in force for a number of years.

"I would not ask the Gentlemen present to imagine, because I have dealt at length with the rubber and tin industries, that efforts are not being made to broaden the basis of the economy of this country.

Promotion of secondary industries

"Investigations are continually being made into the cultivation of other raw materials such as palm oil and cocoa. Both these products offer possibilities to the people of Malaya and there is every hope that ere long these will play an important part in the prosperity of the country.

"Fishing is another industry that might well be developed and many enquiries have been made in this connection. The Japanese found fishing a very fruitful industry in Malaya and there is no reason to suppose that capital will not be attracted to Malaya to gain the benefit of the Japanese experience in this connection.

"There are two other reasons why I have discoursed at some length on problems concerning rubber and tin. One is that, whatever efforts are made to establish a diversified economy in Malaya (and our efforts in this direction are meeting with no mean success), it will necessarily be some time before exports of other products are sufficient to offset the over-riding importance of these two commodities. The introduction of secondary industries into a country which has been brought up on the export of primary products is a slow process; labourers have to be educated and trained into efficient technicians, and it takes time for interest to be aroused and innate conservatism overcome.

"Apart from this, it is extremely doubtful whether secondary industries in Malaya, even when established, could survive independently of the fortunes of rubber and tin. Such industries can only prosper under one of two sets of circumstances, namely; a large local demand for their product or an extensive local availability of necessary raw materials. Without rubber and tin it is unlikely that local purchasing power would ever be very high or that there would be a sufficient quantity of other raw materials on which economic secondary industries, necessarily dependent on an export trade, could be based. This leads me to my second reason, for, if it is true to say that the stability of the Malayan economy is likely to depend on rubber and tin for some years to come, it is equally true to say that that stability is of vital importance to the future of South East Asia as a whole. Several investors of capital and promoters of secondary industries have turned to Malaya since the war as a terri-

REPORTS FROM SINGAPORE & MALAYA

(By Our Malayan Correspondent)

tory which promises a high degree of economic stability in an area where uncertainty as to the future prevails generally. This is an attitude which is to be encouraged, for stability is as contagious as unrest; just as an army marches on its stomach, political conditions take their nourishment from industrial and commercial prosperity. The people of Malaya have shown how they can forget oppression and overcome practical difficulties; the inhabitants of South East Asia are looking towards them as an example to be followed, and I feel with the utmost conviction that the pursuance of a liberal trade policy by the United States towards this territory will do as much for South East Asia as financial aid.

U.S. Exports to Malaya

"There are of course other ways in which Malaya is dependent on the United States for its future prosperity. Two major factors are limiting the speed with which Malaya recovers its pristine strength: that is to say, the supply of capital equipment necessary to make good the ravages of war time destruction, on the one hand, and the supply of essential consumer goods with which to reduce the cost of living of the agricultural peasant and the working class man, on the other. To meet these deficiencies, Malaya has to rely largely on imports from the United States which is the only country in the world at present able to provide these commodities quickly and in sufficient quantity.

"I am pleased to say that the shortage of gold dollars and the obligations of this Colony as a member of the Sterling Area will in no way limit the provision of exchange necessary to meet these requirements in full. Much has already been done. The great lack of textiles which obtained in 1946 and early 1947 has entirely disappeared. With imports from the United States twelve times as great as they were before the war the Malayan lower class consumer has been relieved of a major financial burden. Progress has also been made in the replacement of capital equipment, for, in spite of world wide demand, imports of machinery and agricultural equipment from U.S.A. in 1947 were practically as large as they were in 1938. For these blessings we offer many thanks and the readiness with which the United States has supplied our requirements is greatly appreciated. It is because of this ready co-operation and of the availability of gold dollars to meet our essential requirements that we do not envisage having to take much advantage of Marshall Aid Funds. This is, of course, not to belittle the Marshall Aid programme in any way. No one would attempt to deny the enormous contribution which that programme must make to world financial stability and the great benefit it will bestow on the sterling area as a whole.

Another major element affecting the future of Singapore particularly is the retention of its entrepot trade and in this the supply of American goods plays a major part. Neighbouring territories, especially Indonesia and Siam, are short of the same capital and consumer goods as Malayan and are to a large

SINGAPORE BUDGET

The Legislative Council has approved the draft estimates of revenue and expenditure for the Colony for the year 1949. These provide for an estimated revenue of Malayan \$109,051,943 and an estimated expenditure of \$101,326,627, resulting in a net surplus on revenue account of \$7,725,316. In addition to the expenditure on revenue account there will be an estimated expenditure of \$23,712,902 on loan account. This sum is the unexpended part of the 1946 rehabilitation loan.

Mr. J.D.M. Smith, Financial Secretary, in concluding his speech on the estimates in Council said:—"On the basis of the actual working of 1946 and on the basis of the anticipated results of the financial workings of 1947 and 1948 and on the basis of these estimates of revenue and expenditure for 1949, the probable financial position at the end of 1949, in respect of the Colony's financial working from April 1, 1946 (the date of resumption of civil government) to the end of 1949, is an estimated deficit of \$3,800,000.

"On that estimated probable position it will be necessary that all new proposals for expenditure in 1949 made

extent reliant on Singapore and Penang for the supply of their needs in return for shipments of primary products. Here again I am able to confirm that sufficient U.S. dollar exchange will be granted to facilitate the import of American goods to meet these requirements. Due to a lack of adequate supplies to satisfy minimum local demands some re-exports required by neighbouring territories have hitherto had to be denied them, but it is our intention to relax these temporary restrictions as soon as availability improves—even if it involves an increased expenditure of the gold dollars which all members of the Sterling Area need so badly.

"I am afraid I have taken some time in reviewing the more important elements which are in the forefront of our minds today when we consider United States/Malayan trade relationships. Even so, I fear the treatment has been superficial and that I have perforce had to omit reference to many important under-currents affecting the main issues. However, I hope I have been able to impress upon you those factors which are at present of vital significance to both parties and which must play a large part in the formation of future policy.

"I have thought it best to speak with frankness and not to hide any of the points on which agreement has not yet been reached, for it is only by so doing that we may view the situation in its true perspective and find a way to cement for many years to come that instinctive friendly and mutual understanding which marks so significantly the relations between the people of the United States and the people of Malaya."

after the approval of the 1949 estimates must be placed against the background of that position and tested by the principle that they can be justified only on the grounds that they could not have been foreseen and cannot be postponed without detriment to the Colony."

FEDERAL BUDGET

The financial position of the Federation of Malaya is very much worse than that of the Colony of Singapore and for 1949 the draft estimates of revenue and expenditure which were tabled at a meeting of the Federal Legislative Council in Kuala Lumpur foresee a deficit on the year's working of about \$58,717,447. For the current year the deficit on the year's working is estimated at around \$115,000,000.

For 1949 the Financial Secretary, Mr. W. D. Godsall, estimates revenue at \$261,119,484 and expenditure at \$319,836,931. Compared with 1948 the estimated revenue is some \$33,000,000 higher which is mainly accounted for by increased receipts from income-tax and customs and excise.

The estimates of revenue and expenditure have undergone considerable pruning since they were first drawn up and it is unlikely that any further cuts will be made by a Select Committee of the Federal Council.

EXCELLENT BREWERY BUSINESS

Malayan Breweries Ltd published its report and accounts for the year ended June last. It shows that the net profit after charging undisclosed amounts for depreciation and income-tax was \$1,680,961. Interim dividends of 55 per cent were paid and absorbed \$660,000 and the directors propose a final dividend of 17½ per cent, and a bonus of 17½ per cent, making a total distribution for the year of 90 per cent, compared with 100 per cent in the preceding year. All the distributions were paid or will be payable less income-tax at 20 per cent.

In a statement accompanying the report and accounts the chairman, Mr. H. Schweizer, says that the company's fixed assets, land, buildings, plant and machinery, have been revalued resulting in their being appreciated by \$1,145,664. The fixed assets of a subsidiary company have also been revalued and the value of Malayan Breweries investment in that subsidiary has been increased by \$2,000,000.

The company has already announced that it will seek an increase in its capital from Malayan \$1,500,000 to \$10,000,000. If this is approved by shareholders at a meeting to be held on Dec. 8, shareholders will receive a bonus distribution of three new shares for every one then held. The ordinary capital will then be converted into stock.

To give effect to the above proposals it is necessary to capitalise \$4,400,000

THE NEW JAPANESE GOVERNMENT AND PROSPECTS FOR ITS SUCCESS

(By Our Japanese Correspondent)

The Ashida Cabinet, which was formed by the members of the big 3 parties (Democratic Party, Socialist Party and People's Cooperative Party) on March 10, this year, fell after a short life of 7 months. Hitoshi Ashida, Prime Minister, had the plan to finish the revision of the National Public Service Law at the 3rd extraordinary Diet session and was convinced to accom-

plish this task. But there happened the detention of Takeo Kurusu, Director of the Economic Stabilization Board, on a bribery charge. And this was followed by the case of Suehiro Nishio, an inter-mediator between Democratic Party and Socialist Party, in the affair of the Showa Electric Industry Co., in which T. Kurusu had been involved. These two scandals made Ashida lose self-confidence and he refused to remain Prime Minister.

The Showa Electric Industry Co. scandal

of the General Reserve and \$100,000 of the dividend equalisation reserve. When these proposals are effected the company's capital structure will be an authorised capital of \$10,000,000 comprising 2,062,500 management shares of \$1 each; 3,175,000 ordinary shares of \$1 each and 4,762,500 ordinary shares of \$1 each converted into stock. The issued and fully-paid capital will be 1,237,500 management shares of \$1 each and 4,762,500 ordinary shares.

The chairman draws attention to the high rate of excise duty payable on locally manufactured beer which is the same rate as the import duty on imported beer. He says that Malayan Breweries pay to the Singapore Treasury more than forty per cent. of the wholesale price of their beer. This figure of 40 per cent. is exclusive of income tax.

SEPTEMBER TRADE

The one unsatisfactory feature of this company report is the fact that the provision for income tax has not been disclosed and has been treated as a charge against profits instead of as a disposal of profit.

Malaya's overseas trade in September totalled \$318,001,495. Exports amounted to \$173,874,131 and imports \$144,127,364, giving a balance in favour of Malaya of \$29,746,767. In August exports valued \$167,093,722 and imports \$147,155,981. The cumulative total of imports for the first nine months of this year is \$1,394,269,633 and for the same period exports were valued at \$1,290,479,731, giving an unfavourable balance for the period of \$103,789,902.

The main countries receiving Malaya's exports were:—

United States of America ..	\$51,495,759
United Kingdom	24,751,917
Indonesia	18,806,342
U. S. S. R.	14,071,431
France	5,881,006
Australia	5,255,150
India	5,866,297
Canada	4,039,755
Italy	4,599,988
Hong Kong	2,283,842

Malaya's imports came mainly from:—

Indonesia	\$34,991,200
United Kingdom	31,110,058
United States of America ..	15,814,606
Sarawak	10,643,468
Australia	7,370,587
China	8,927,737
Hong Kong	2,943,914

plish this task. But there happened the detention of Takeo Kurusu, Director of the Economic Stabilization Board, on a bribery charge. And this was followed by the case of Suehiro Nishio, an inter-mediator between Democratic Party and Socialist Party, in the affair of the Showa Electric Industry Co., in which T. Kurusu had been involved.

These two scandals made Ashida lose self-confidence and he refused to remain Prime Minister.

The Showa Electric Industry Co. scandal

The Showa E. I. Co. is by far the largest chemical fertilizer concern in Japan, capitalized at 224-million yen (paid up capital, 152,500,000) with 15 large factories in Japan. The former president of this concern, Akira Mori, was purged in March, last year, and then to the post of president succeeded Setsuzo Hinohara, who was previously the president of the Japan Hydrogen Industrial Co. He remained president of the Showa E. I. Co. until his detention on June 23, this year.

Shortly after his inauguration Mr. Hinohara applied to the Reconstruction Finance Bank for a loan. However, an R.F.B. advance of over yen 50 million can only be accommodated if there is an approval of a 12-man special committee, which consists of such prominent persons as the then Finance Minister Takeo Kurusu, Governor of the Bank of Japan, Commerce and Agriculture Ministers, and leading bankers and monetary experts. In order to conquer this difficulty of getting an early and big loan, President Hinohara and other company directors bribed a considerable amount of money to the government officials.

In the beginning of the investigation into this financial scandal, it seemed that the key point of this case was whether the Showa E. I. Co. obtained the big loan from the R.F.B. without any bribe or not. As the investigation was carried on and the detention followed of Takeo Kurusu who also was "Finance Minister" of the Democratic Party, (the Ashida Government Party) it became most important to know how the bribe money was used and how many officials were implicated. The case is still dragging on.

New Japanese Cabinet

The formation of the Yoshida Cabinet was completed within 12 days after the downfall of the Ashida Cabinet but there cropped up so many difficulties that the establishment of the new government seemed impossible. The Ashida headed Democratic Party was eager to lead the Government again, and so some members of the Party devised many schemes of disturbing the formation of the new Cabinet.

Mr. Shigeru Yoshida, the president of the Democratic Liberal Party, has succeeded to remove these obstacles temporarily and to organise the first Cabinet that consists of a single party for the last 10 years in Japan. The new Government is formed not only by pure politicians but also a few civil servants and experts, most of them fresh in the political arena.

All Cabinets, including the new one, since the termination of the war, have always had to face two great problems; one is economic and the other is a labour question. In regard to the latter, the Yoshida Cabinet is generally called conservative or Rightist. But Mr. Yoshida of whom, it is said that he harbours antipathy as regards labour unions or workers' movements will have to go along carefully lest he excites all labourers to opposition. Especially the Federation of Labour's attacks which descended from the Socialist Party, hitherto in the Government and now in the Opposition, are the greatest handicaps for the new Cabinet. Knowing the state as mentioned above, Kaneshichi Masuda, the new Labour Minister, seems to be disinclined to touch on the revision of the Labour Law which is one item of the Democratic Liberal Party's political programme.

Other important economic problems include the enforcement of measures against inflation, and the reintroduction of free enterprise principles or at least the softening of present controls. The abrupt abrogation of economic controls is not to be expected. The immediate change from a severely managed economy to a free one could mean the destruction of Japanese domestic peace. However most business men want to see active steps for de-control.

Thus there should be little difference between the basic policy of the Ashida Cabinet and that of the Yoshida government both as regards control of national economy and the handling of the labour problem.

The Democratic Liberal Party at its recent party rally decided to urge the abolition of the business transaction tax which was instituted one month and a half ago. But they must find new sources of revenue, replacing this tax before the decision can be translated into practice.

Outlook for the present government

The most important issue in Japan today is the establishment of genuine internal peace and collaboration among the various interests. As conservative circles are at the helm and find all-out support from the American Government and SCAP, the Opposition is somewhat discouraged, biding their time and organising, as it were in the underground, their forces for an eventual showdown with the various political parties and groups which now rule and which have as their aim the maintenance of the social status quo.

Labour leaders have not shown any truculence in spite of the Yoshida Go-

OUTLINE OF THE POST-WAR ECONOMIC POSITION OF JAPAN

I. BASIC CONDITIONS OF POST-WAR ECONOMY

The fundamental differences between post-war and pre-war economy in Japan are the following three:—

Loss of Property. The total properties (excluding military properties) lost in Japan proper amount to 49,673 million yen in terms of the price level at the time of the surrender and 1,383.4 billion yen in terms of official prices at the end of last year, or 20% of the total domestic assets in pre-war days. National income in 1935 was 14.5 billion yen, of which 2.2 billion yen (or 6.5 billion yen in terms of prices at surrender time) was turned to new in-

vestment, therefore, even with the economic capacity of 1935, it will take nearly ten years to recover the above direct losses only.

Reduction of Foreign Trade. In order to permit the 80 million Japanese to attain the living standard of 1930-34, it will be necessary for imports to reach about 2 billion dollars with a corresponding sum of exports. In 1947, however, actual imports were 25%, while exports were less than 10% respectively of the above mentioned figures. In view of the fact that Japan has to depend upon the import of various articles, such as foodstuffs, textiles and other industrial raw materials, etc. the reduction in foreign trade means a lowering of the living standard and inactivity of industries.

Rapid Increase of population. The population of Japan totalled 78.62 million, or an increase of around 6.6 million since the surrender. This increase is mainly attributable to the repatriation of 5.77 million at the end of October 1947. This increase of population will enhance productive labour in the interest of economic rehabilitation, but on the other hand it also means an increased consumption of food and other goods which will aggravate the import burden and unemployment problem. As will be clear from the foregoing statement, recovery in a short period of Japanese economy to the pre-war level will be extremely difficult. A self-supporting economy and improvement in the living standard can be achieved only through nation-wide savings and hard work.

II. GENERAL SURVEY OF PRESENT ECONOMIC CONDITIONS.

Under the above mentioned basic conditions, post-war production, particularly that of industries, has remarkably decreased. On the other hand, the release of purchasing power accumulated during the war, and the subsequent over-expenditure of public finance and deficit financing to enterprises rapidly accelerated inflation and prices kept on rising. The industrial production, which had declined immediately after the autumn of 1946 to nearly 40%, thereafter with ups and downs showed no noticeable increase.

In the mining and manufacturing industries, production declined temporarily during the summer and autumn of 1947, owing to the seasonal shortage of electricity supply, unsmooth import of raw cotton, etc., but the average production in 1947 fiscal year reached 43.1% of that in 1930-34, or a 21% increase as compared with the preceding year. Especially since last December production has been improving and the production indices were 44.8% (Dec.), 41.9% (Jan.), 45.5% (Feb.), and 49.0% (Mar.) in spite of the dry season.

III. INCREASE IN COAL PRODUCTION AND THE POWER SITUATION

Coal:—The output of coal during the first half of last year did not increase so much notwithstanding the adoption of special measures based on the priority system, but because of the comparatively good results achieved in the latter half the total output for the 1947 fiscal year amounted to 29.32 million tons, or 97.7% of the 30 million ton target.

In consequence of this increased production, the coal allocation for total use and for industrial use during the fiscal year 1947 was increased by 30% and 46% respectively compared with the preceding year. The ratio of the latter to the former was 32%, against 28% in 1946, but that amount remained still only one third of that in 1937.

Considering the drop in the quality of coal actual supply is lower than the above figures. The reasons for the degradation are: (1) production recovery in mines producing high quality coal has been delayed, (2) improvement of quality has been rather neglected, (3) operating equipments have become superannuated and (4) price differentiation in accordance with the quality has been rather small.

Electricity:—Abnormally dry weather starting in August, accompanied by frequent accidents in power stations, caused a sharp drop in hydro-power generation. Although coal allocation to thermal power stations was considerably increased, the electric situation did not turn favourable, which greatly hampered industrial activities in 1947, in spite of the fact that the total power generation in the fiscal year 1947 is estimated at 28.5 billion kw. h. hydro power and 2.0 billion kw. h. thermal power, totalling 30.5 billion kw. h., which is 35% over the 1930-34 level and nearly equal to that of 1939, demonstrating a remarkable increase of electricity consumption as compared with meager industrial productions.

The power supply for 1948 will be 31.6 billion kw. h. or an increase of only 5% compared with 1947. Considering the anticipated increase in power requirements following the advancement of industrial production, the prospects for the demand and supply situation of electric power are not so bright.

Petroleum:—Domestic sources provided in 1947 only 175,000 kl., the remaining 90% being imported petroleum released by the Occupation Forces. The total supply during the fiscal year 1947 amounted to 1,335,000 kl., or a 79% increase compared with 1946. Yet it could only meet 70% of total requirements.

IV. SITUATION IN MANUFACTURING INDUSTRIES

Industrial production during the fiscal year 1947, as compared with the preceding year, showed a considerable increase in almost every category, rising to a level of 35.8% of that in 1930-

vernment formation. But there is an uneasy state of watchfulness on both sides. The most vociferous labour leaders claim that only by a show of determination and strength can the Yoshida Government be dissuaded from bungling in labour relations. The issue is of course between organised labour and the industrialists, the latter being backed up by traders and merchants generally, and, although behind the scenes, by the all-powerful SCAP.

The Ashida Cabinet was very unpopular not only among the common people but also among the manufacturers and merchants. Its fall was a welcome development and the free road which now opens for Yoshida and his Party is at least unobstructed as far as the middle and upper classes are concerned. And, what is still more, the support of SCAP is assured.

The Showa Electric Industry Co. scandal remains to be fully uncovered and the culprits duly punished. Smaller bribery cases happen quite frequently which is no wonder in times like these when living costs are excessive and public morality, after a lost war, is at a low. It must, however, be stated that the majority of officials and the public servants at large maintain a high standard of integrity and remain loyal and incorruptible.

In the final analysis the recuperation of the Japanese economy, which is the goal of free enterprise and just as well of state economy advocates, depends on outside factors much more than on social peace at home. That there must not be any labour troubles if Japan is to rebuild goes without saying and in this respect Japanese workers have shown real and abiding love of their country and people; they have put up with great hardships and by the sweat of their brows have gone to finish the job of bringing back prosperity to Japan. Unfortunately, the management interests have not shown the same spirit although it cannot be denied that the majority of capitalists in Japan practise the principles of co-operation.

34, or a 20% increase over 1946. Generally speaking, the production recovery was noticeable in basic capital goods, whilst the production of consumers' goods remained stagnant.

Iron and Steel:—The priority production program, enforced since January 1946, with a view to encouraging iron and steel production by an increase of coal allocation, especially the regular use of imported heavy oil since last June, resulted in an increase in production of iron and steel. However, after August when ordinary steel production reached the peak of 47,000 tons, it began to slacken due to the electric power shortage and labour unrest, whilst pig iron production by blast furnace increased continuously.

Total production estimated for the fiscal year 1947, however, is far below the 675,000 tons production program, because, in addition to electric power shortage, the expected importation of coking coal from North China was not realized, thus production of finished steel and pig iron was 569,727 tons and 411,461 tons respectively.

Cement:—Actual production amounted to 1,284,000 tons, being a 20% increase compared with the preceding year, but far below the 1,670,000 tons production goal, due to the fact that the coal allocation could not be increased as desired. Minimum annual requirements of finished steel and cement amount to 2 million tons and 4 million tons respectively, but supply is roughly one third of the demand for both. Besides, as allocation to the Occupation Forces accounts for about 20% of the total finished steel supply and 50% of that of cement, allocation for general use became very difficult, especially cement allocation was less than that in the preceding year.

Chemical Fertilizer:—The production of ammonium sulphate as well as calcium cyanamide which entails the consumption of a great quantity of electricity dropped after reaching the peak in July last, while that of superphosphate of lime kept on increasing with the importation of a great quantity of phosphate rock.

Production of sulphuric acid was, however, hindered by the shortage of pyrite due to transportation difficulties, which in turn became one factor impeding a fertilizer production increase.

Machinery:—The recovery in the machinery industry which has so far been made possible by the utilization of materials in stock, consumed an estimated quantity of 340,000 tons of steel during the past year, of which 75%, or 250,000 tons came from stocks in hand. If the supply of raw materials to this industry is not promptly augmented by means of an increasing production of such raw materials, the machinery industry will be unable to maintain even the present production level.

Textiles:—Production in the cotton industry did not reach the scheduled amount in 1947, on account of the lack of smooth importation of raw cotton, estimated output being 257 million pound of cotton yarn and 709 million square yards of tissues, or 1.3 times and 1.9 times as much as the preceding year respectively, but still around 20% of pre-war production period. However a bigger

increase in production is expected this year with the bright prospects of raw cotton importation.

With regard to chemical textiles, the production of rayon yarn in 1947 is estimated at 20 million pounds, being 90% over that of 1946 but is still only 10% of pre-war time. That of staple fibre decreased compared with 1946, due to the shortage of raw materials such as pulp, caustic soda, sulphuric acid, carbon disulphide, etc., as well as that of coal and electricity.

Production of woollen and hempen goods was also less than in 1946, due to unsmooth importation of raw materials and a decrease of stocks.

A decrease in the production of rubber goods was also recorded for the same reason.

Future Prospects:—From the above outline of industrial activities in the fiscal year 1947, it will be seen that production as a whole advanced 20% as compared with 1946, as against a coal output increase by over 40%. The reasons for this situation can be explained as follows: (1) the time lag between the coal increase and its full effect upon industries, (2) transportation difficulties, (3) electric power shortage, (4) lack of imported raw materials and a decrease in stocked materials.

Production recovery is the most important problem in post-war economy. Unless a speedy increase of production of basic materials is achieved, such factors as the exhaustion of stocks, the progressive deterioration of industrial equipments and devastation of land, etc., would make economic recovery ever harder.

The possible adverse effect of mounting inflation on production must not be overlooked. In the present fiscal year, a substantial increase in production, mainly in export goods and basic capital goods, can be expected, whilst that of consumers' goods for domestic use which are most effective in arresting inflation, can not so much be expected. Furthermore, a speedy recovery of production will require a huge outlay of funds.

V. PRODUCTION IN AGRICULTURE, FORESTRY AND THE AQUATIC INDUSTRY

Agriculture:—Chemical fertilizers distributed for rice plants per *tan* in 1947, rose to 4.3 *kan* (2 *kan* in 1946) in terms of ammonium sulphate, and still accounts for only some 60% of the current demand. (*tan*=0.245 acre, *kan*=3.75 kg.) However, a further increase to 5 *kan* is anticipated in 1948.

In spite of the shortage of fertilizers, flood damage and other adverse conditions, the rice crop in 1947, due to favourable weather, was a bumper one of 59.67 million *koku* which is close to that of 61.38 million *koku* in 1946. (*koku*=0.96 bushels; *cho*=2.45 acre.) Sweet and Irish potato crops fell considerably below the 1930-34 production. A relative decrease is particularly noticeable in wheat and barley. The decrease may be explained in the case of rice, by curtailments of planted acreage, as the yield per *tan* was maintained more or less unaltered, while in the case of wheat and barley, the decline in output per unit area is mainly responsible for the decrease.

Rice delivery proceeded smoothly and the delivery target of 30.55 million *koku* was realized in the middle of March this year. The target of agricultural production for the present fiscal year is set at a level of 10% over that of last year. In case it is fully realized food conditions after the coming autumn will be somewhat ameliorated.

With the goal of the land reclamation program set at 1.6 million *cho*, it had been anticipated to increase food production and to absorb surplus population, but the progress of the work up to the present is behind the plan, due to the insufficient supply of funds and materials and the selection of unfitted lands.

Timber:—Partly because of speculative marketing of standing timber by the owners, and partly because of sales made for the purpose of paying property tax, the production of timber during the fiscal 1947 is estimated to exceed considerably 2.5 million cubic metres, the stocks at the end of December 1947 amount to 790,000 cubic metres on account of transportation difficulties. While the production of charcoal and firewood also have attained their objectives, the lack of adequate transportation facilities is giving rise to extremely unsatisfactory condition of distribution at the consuming centres.

Fisheries:—On account of the loss of the fishing fleet as well as diminution of fishing grounds, the catches during the fiscal 1947 year totalled only 770 million *kan* or 62% of the 1930-34 average, which was still an increase of some 10% over 1946.

Since the termination of hostilities fishing vessels totalling 230,000 gross tons have newly been constructed, bringing the total at present up to 940,000 gross tons. The short supply of materials such as fuel oil and nets, however, is occasioning a bottleneck in production increase. Although by the good offices of the Allied Powers the fishing grounds allowed for Japanese have been twice extended, still the limitation imposed on operations in the north sea fishing area, trawling in eastern seas and the Yellow Sea, as well as bonito and tunny fishing in southern waters, are checking the recovery of this industry.

The despatch of two fleets of whalers to the Antarctic Ocean was approved by SCAP in 1946, and the catches are now playing an important role as a source of food as well as fat and oil for various purposes.

VI. TRANSPORTATION AND COMMUNICATION

Railroad Transportation:—Railroad transportation in the fiscal year 1947, amounted to 112 million tons or 95% of the planned volume. Even though a 12% increase over the preceding year, corresponding to the level of 1938, the above tonnage was only 85% of requirements, which retarded the production recovery.

It is estimated that the total freight the railroads will be called upon to move in the year 1948 fiscal will exceed 160 million tons on the basis of the 36 million tons target for coal production. However the possible maximum will be 138 million tons, and the trans-

portation problem is expected to continue to be the greatest bottleneck in production recovery. Passengers carried by Government Railroads averaged 9.5 million people per day during 1947, an increase of 13% over 1946.

Marine Transportation:—Transportation of cargo by vessels in order to alleviate the burden of the railroads has been a policy constantly adhered to and considerable success has been made in the case of coal, iron and pyrites. However, factories having scanty stocks of raw materials on hand are usually pleased to welcome the continuous supply of small quantities by railroad rather than sporadic shipments of larger quantities, by waterways, and the cost of transportation is much less on land than on the sea.

Marine: transportation fulfilled the 10.68 million tons target for the fiscal year 1947, which in an 88% increase over 5.68 million tons in 1946. Capacity to move at present is 430 vessels (1,320,000 tons), including an increase of 22% during 1947. Ocean going vessels capable of voyaging to the South Sea total 200,000 tons, while only 4 vessels can undertake voyages across the Pacific. Cost of transportation which accounts for 22% in the case of imports and 4% in exports, means that approximately 200 million U.S. dollars worth of freight charge will be paid in foreign currency during the coming year if the goods are brought in and out by foreign vessels.

As regards port facilities, loading and unloading capacity has been reduced to 60% of pre-war in the case of coal and other cargo in bulk, and further to 40% in the case of rice, cereals and others. Harbour dredging and rehabilitation of cranes, landing places, sheds and warehouses which have been left untouched is urgently needed.

Trucks:—Trucks including those newly manufactured and those released by the Occupation Forces number 124,000, and carried 170 million tons in the fiscal year 1947. Shortage of tyres and fuel is a bottleneck in truck transportation.

Motor Sailing Boats:—These number 18,000 (850,000 tons) at present, of which 680,000 tons are in actual service, carrying 200 million tons of goods in the fiscal year 1947. Here again the biggest bottleneck is the short supply of fuel oil.

Communications:—The efficient operation of telegraphs and telephones is greatly impeded by war damage and deterioration, rehabilitation of which has not yet been carried out. For example, in 54, cases out of 100, Tokyo telephone subscribers fail to get connections because of busy lines (36 cases) or mechanical failure due to poor equipment (18 cases). In case of some subscribers, this rate is as high as 18%. As for long distance telephone calls, 25% of the applications have to be cancelled seemingly on account of the telephones being out of order, despite all efforts to get connections (9% in pre-war days). Telegraphic communications between Tokyo and Osaka stations took 1 hour 40 minutes in May 1947 (18 minutes in 1937, 2 hours in May 1946). It will take a considerable time to bring the situation back to normal as existed before the war.

VII. FOREIGN TRADE

In foreign trade during last year, imports and exports amounted in value to 526 million US dollars and 174 million US dollars respectively, or an increase of 80% and 50% respectively as compared with those from Sept. 1945 to Dec. 1946, accounting for only 30% imports and 10% exports compared with the pre-war level (1930-34). The unfavourable balance of trade for last year stood at 352 million dollars which, with the 180 million dollars imports excess up to the end of 1946, add up to 530 million dollars.

Imports:—In imports, (1) commodities indispensable for combatting hunger and disease and for the maintenance of a minimum living standard (such as food, fertilizers, medical supplies, oils and fats, table salt and some 30% of petroleum) accounted for 68.2% of the total amount in 1947 (69.5% for previous period after the termination of war up to the end of 1946), while (2) basic materials necessary for economic rehabilitation (including 70% petroleum, 30% salt, machinery, coking coal, pig iron, benzine, etc.) took up only 16% of the total imports (4.9% for previous period), and (3) raw materials for export industries amounted to no more than 15% (2.5% for previous period), of which cotton constituted 12.9%, though it fell off in volume and percentage.

Exports:—The export trade is, though still very small in amount, being gradually restored to the pre-war commodity composition. Textile goods occupy more than one half of the total.

Compared with the previous period, the export of raw silk declined, while that of cotton goods occupied the greater part of exports in 1947. Raw cotton was supplied by the United States and paid for from the export income of the processed articles. Some 80% of the imported cotton was applied to the manufacture of export goods, and all sales had to be made in dollars. This arrangement handicapped considerably the export of Japanese cotton goods to East Asia, the principal market, owing to the dollar shortage in that area. In December last year accumulated surplus stocks amounted to 300 million yards in fabrics and 10 million pounds in yarn.

The export of agricultural and aquatic products, machinery and miscellaneous articles is being restored, though orders for machinery cannot be met due to the lack of materials. One characteristic of post-war trade is that Japan has been exporting vital commodities that are scarce within the country, such as lead, tin, coal, lumber, crude rubber, etc.

Customers:—America continued to occupy the overwhelming position in regard to exports, while exports to East Asia have come to occupy the major portion, indicating that Japanese trade is reverting to its original direction.

Barter Trade:—Barter trade which was inaugurated last year is significant as a measure for coping with the perplexing currency problem, and negotiations on these lines are in progress with several countries.

Private Trade:—Only a small amount of trade contracts, totalling 19,000,000 U.S. dollars, have been negotiated since the commencement in September 1947 to the end of 1947, due to price difficulties and the very small number of buyers from East Asia. Since then, as a result of the extension of civilian trade to include raw silk, this trade began to pick up visibly after February, and amounted to 60% of the entire civilian trade from Sept. 1947—Jan. 1948. Thus civilian trade exports in this year up to April 15 were 27 million dollars, and 46 million dollars since the termination of hostilities.

Foreign Trade Prospects:—It is obvious that the various measures relating to materials, power supply, funds, etc. will have to be more forcefully executed this year. On the other hand, commercial transactions may be made more smooth as various restrictions on commerce will be gradually mitigated. However, the dollar shortage in the sterling and other non-dollar areas is likely to continue as a world common basic problem, the solution of which must be sought in the establishment of international agreements for the settlement of accounts and other measures of world wide scale, but, as to Japan, in order to cope with the situation it is necessary to conclude clearing agreements with other countries or expand barter trading.

As to imports, the shortage of import funds and the tight condition of overseas demand and supply have in the past caused a bottleneck, though prospects seem considerably brighter now. A loan for the import of raw cotton and the establishment of an additional revolving credit are in prospect. For the import of foodstuffs and other materials indispensable for assuring the minimum standard level of livelihood, the aid of the United States will have to be requested this year, even more so than in 1947. An increase of aid by the investment of foreign capital in various lines, and the development of foreign trade, will serve to bring closer the contact between international economy and that of Japan. Particularly a solution of the foreign exchange problem, though difficult to accomplish under the economic conditions prevailing in Japan today, will be effected in the course of time, and it will be necessary to adjust the unbalanced condition of the price system and to complete preparation for participation in international economy.

VIII. TREND OF INFLATION

Price:—The word "price" is at present being used in three different ways, namely (a) official price, (b) black-market price and (c) effective price arrived at by computing synthetically both the official and blackmarket prices. In consumers goods, these three showed a very different movement after June 1947 compared with the preceding period. Until June the black-market price rose quicker than official prices, while after June the relative speed was reversed. Owing to a revision of the price level, official prices rose substantially during the latter half, which had slowed down the upward trend of blackmarket prices, ris-

ing only 16% from November 1947 to February 1948 (65% for the corresponding period of the previous year).

The effective price following the blackmarket price soared up after the end of 1946 till the spring of 1947.

As to capital goods, while the official price rose by 150% from June to the end of 1947, the blackmarket price rise started to slow down after September, being reduced to an advance of 4-5% a month from more than 10% until August.

What is the present level of prices compared with pre-war days? Taking 1937 as the basic year, the Tokyo index at the end of last year, in the case of consumers' goods, showed official price 84 times, blackmarket 360 times, and effective 200 times, and in the case of capital goods, the official price of 76 times and blackmarket 370 times as much.

Currency Situation:—In 1946 the Bank of Japan note increased at the rate of 7 billion yen per month, while after the beginning of 1947, the rate of increase fell. The note issue increased by 103 billion yen during the fiscal year 1947, this increase being particularly marked in the October-December period. Through January-February this year, however, the note issue continued to decline due to the success of tax collection and the suppression of government payments.

In view of the strong factors at work conducive to inflation, such as increasing stringency of industrial funds, gradual rise of wage level, below-cost official prices, etc., a final solution of the inflation problem cannot yet be envisaged.

IX. GOVERNMENT FINANCE

By dint of the tax collection campaign conducted since January, and the restrictions on government expenditure, which contributed in no small measure to arresting the progress of inflation, the General Account for the fiscal year 1947 could be balanced. This result can partly be attributed to the fact that a considerable sum of actual payments was carried over to the following fiscal year.

Revenue:—The tax revenue at the end of 1946 amounted to 46.5 billion yen only, or 35% of the estimated total for the fiscal year. The so-called pay-taxes campaign was made an issue in earnest from January, and as a result the collection, including stamps revenues, totalled 124.9 billion yen as of the end of March (estimated total ¥135.4 billion). Notwithstanding this great improvement, it is obviously necessary to establish a system under which taxes will be collected uniformly throughout the year. The question is not only one of ensuring higher efficiency in the collection of taxes, but also that of re-examining the system of taxation as a whole.

The growing inequity in the incidence, in particular of income tax, comes into question. Inflation has brought about a highly anomalous situation in the distribution of national income, earned income accounted for below 30% (40% in pre-war days), entrepreneur income for more than

60% (about 30% in pre-war days) of the total national income. This change may be significant, considering that the exact amount of income of the former is much more easily ascertainable than that of the latter. In addition, the inequity between them is still more emphasised by the difference in the rates of actual tax-collection; while the former tax revenue collected by the end of March was 131% of the estimated total, the latter tax revenue based on the assessment report filed by the payers was only 78%. The current system weighs relatively heavier on the wage or salary earners than on entrepreneurs.

The burden of taxes in general has now become heavier than before, with the scope of taxation having been extended to include even groups of considerably low incomes. The number of income tax payers has reached 25.6% of the total population (1.6% in 1937).

Monopoly profit is estimated at 51.2 billion yen for the fiscal year 1947, which is slightly less than 7 fold that of 1946, mainly due to the profits on tobacco.

Expenditure:—Total expenditure included in the budget up to the end of the fiscal year is 214.3 billion yen. Nominally this is 87% over the originally authorised sum, but if, converted by the price index, the real value may be considered only about 70% of the originally intended expenditure. Classified the estimated expenses were, war termination expenses and reparations equipments expenses—32%, price adjustment expenses and other similar items—21%, subsidies to local government—10%, remainder—only 37% for public works, health and sanitation, social relief and labour facilities, education and other cultural activities, agrarian reform, measures for repatriates, etc. In these circumstances, there remain only two methods i.e.: (1) To apply a thorough-going priority system in allocating government expenditure, and to readjust and simplify the administrative organisations; (2) to establish a strict auditing system and to enforce observation of official prices thus to save the estimated appropriations.

Special Accounts:—Borrowing and net increase of government bonds amounted to 66.5 billion yen, of which 58.5 billion yen was undertaken by the Bank of Japan. The main deficits are in the Railways (16.9 billion) and Communication Accounts (6.7 billion). As these government-operated undertakings are making inroads into the already slender resources of the General Account and constitute the main reasons for excess payment of government funds, it is essential that these enterprises be rationalized and placed on a business basis, as a prerequisite of sound finance.

Local Government Finance:—Reflecting the stringent conditions of the national finance, most of the local governments are reduced to an impoverished state. The total estimate

of local government expenditure for the fiscal year 1947 is in the neighbourhood of 90 billion yen. Of the sources of revenue, government apportionment of the local apportionment tax, national and local payments and public loans floated with the approval of the State represent 70% of the total. The independent resources accounting for the remaining 30% also lack the necessary flexibility, so that, in case of need, the only resource the local government has is to rely upon aid from the State.

X. INDUSTRIAL FINANCE

Loans:—Industrial loans continued to swell, the monthly increase exceeding 10 billion yen from August 1947 and the total during the fiscal year 1947 increasing by 167.5 billion yen, of which 53.5 billion yen, or 32% was financed by the Reconstruction Finance Bank (R.F.B.). Funds required for industrial enterprises increased due to (1) deficiency of operation and equipment funds caused by the price rise, and (2) deficit finances, partly owing to the reduced operation rate of business. At present, as key industries are, in most cases, financially unsound, they are generally dependent on the RFB. Of the total 35.3 billion yen advanced to general industrial enterprises (excluding public corporations) in the fiscal year 1947, 53% went to the coal industry alone, which with fertilizer and steel manufacturing industries got more than 60%.

Approximately 60% was assigned as equipment funds, and the rest as operation funds, which are presumed as belonging to deficit finances.

Furthermore, with the increase of public corporations advances to them have made a rapid increase and now account for 34% of the total loans of the RFB.

Loans from general financial institutions were strictly controlled by finance regulation for the purpose of applying the priority system to industrial finance.

Funds:—The RFB which advanced the large amount of 59.5 billion yen in the period from its establishment to the end of March, had only 7 billion yen subscribed by the government, the balance of its capital being raised by the issuance of Reconstruction Finance Bonds, which amounted to 58.9 billion yen. Sales of the Bonds on the general market proved unsuccessful with only 13 billion yen (22%) being sold, thus the remainder of 45.9 billion yen was shouldered by the Bank of Japan, causing an increase in currency.

In the case of general finance institutions, too, their advances to industrial enterprises and their investments in national and local bonds, RFB Bonds, etc. were in excess of the funds ready at their disposal in the form of deposits and saving accounts, and the deficiency was covered by loans from the Bank of Japan, causing an increase of currency issue.

FOREIGN TRADE PROBLEMS AND EXPORT REGULATIONS IN JAPAN

Savings:—The increase of general free deposits in the last fiscal year amounted to 195 billion yen, being only about 70% of the total funds released. Moreover as the first blocked deposits have declined, the net increase reaches no more than 125.5 billion yen for 1947.

Though the stability of deposits recovered in some degree, it is still far below normal times (ratio of time deposits to total: 13% Mar. 1946, 21% end of 1947 against more than 50% in normal times).

Recent Conditions of Enterprises

Due to the insufficient accumulation of funds through savings and also to loss of credit by enterprises through increasing deficits and debts, enterprises are seriously suffering from a shortage of funds.

The shortage of funds in enterprises was accentuated by the increasing need of working funds resulting from the progress of inflation, the increase of sales on credit, the delayed payments by the government, etc.

The problem of excessive employees and workers is the greatest cause of the present difficulties: labour productivity has shown a remarkable decrease compared with pre-war days. The per head productivity in the mining and manufacturing industries during October 1947 was only 28% and 33% average respectively of the standard of 1935-37, though it should not be concluded 70% of the present employment is over-employment, because it is impossible to cut down employment in proportion to the reduction of production. Under the present circumstances, a substantial portion of the over-employment may be turned to essential employment by increasing industrial activities; moreover there exists practically no room to absorb such unemployment if it be created.

XI. WAGES AND LIVING COSTS

Wages:—Wages have shown a marked upward tendency every month, notwithstanding the standard wage of 1,800 yen (July 1947) was based on the new price level.

The average wage of labourers is around 76% of that of staffs, and the female wage is about 47% of that of males (30% in 1934-36). The equilibrating trend of wages is visible in various other quarters, which may be unavoidable under the stringent conditions of post-war economy, due to the full rationing of staple foods since last August, and a standstill upward curve of prices. Nevertheless, deficits in households did not disappear as at first expected. Compared with the 1934-36 period, the real wages and expenditure in 1947, roughly speaking, correspond to 30% and 40% respectively of the pre-war level, indicating that in order to balance the family budget more reliance has to be placed upon supplementary income.

XII. LABOUR SITUATION

Population by industry is compared as follows with that of 1940: The ap-

proximate 6.1 million increase of total population is divided into 1.4 million increase of gainfully employed and 4.7 million increase of those not gainfully employed. In the category of non-labour force are included women in families, students, aged people, non-employed persons in the prime of life who would not seek fixed occupations, etc. Unemployed are only 670,000, believed to be greatly under estimated, for the reasons that there exist a great number of persons who prefer to be black-market brokers, included in the category of non-labour force. The number of gainfully employed increased by 4% in spite of the extraordinarily reduced scale of production since the termination of hostilities.

The post-war decrease of labour productivity brings about a decrease of real wages, and the resultant decrease in the living standard of workers reduces their capacity to work. The government, therefore, has been endeavouring to maintain and promote labour productivity while guaranteeing, especially workers in essential industries, the maintenance of their livelihood by allocating to them additional rations of foodstuffs, working outfits and other goods.

The number of labour unions registered was 26,421, of a total membership of 5,993,613 as of the end of November last year (end of 1946 unions numbered 17,265 and membership 4,849,329). In the beginning of the union movement, members were not fully alive to their position, and there were also some members who lacked an understanding of the national economy and public interest. It is only quite recently that a new development has arisen in the independent actions of subordinate labour organizations in connection with the changes of organisation and activities of the federated council of labour unions.

Although the number of labour disputes has decreased since the beginning of 1946, regional labour disputes demanding mainly the establishment of a minimum wage system and a sliding wage system in connection with the new price level, began to increase since last July. Considerable success has been obtained by these general industrial workers in their demands, but some problems remain unsettled concerning government and public workers.

required to have a specific standard and packing, and, moreover, domestic freight and other charges for shipping are added as they are actually demanded. So it is natural that the price of export goods is higher than the controlled price of domestic articles. If computed in foreign money, exports and imports differ more widely in ratio.

According to the Occupation Report by SCAP for June, the total export amount in the January—April period was set at US\$45,124,788 and the total import amount in the same period at \$245,310,880 and the excess of import at \$200,186,092. Even if it is taken into account that large amounts of exports were made in May and June, these figures in dollars show too great a divergence from the above-mentioned ratio of export and import computed in Yen.

At present when the yen value itself widely and irregularly diverges from the international price, it is exceedingly difficult to revise the export and import statistics worked out in yen value so as to reflect the actual aspect of the transactions. To do this would require complicated calculations.

It is necessary for the moment to judge the general tendencies of Japanese trade by the statistics in dollars. It is expected that things will gradually be so altered that it may be possible to rule by the single rate. The entry of trade fund accounts in the book will also be revised in such a way that the state of transactions may be truthfully represented. As it is, it is impossible to indicate accurately the details not only of the exports and imports of the first six-month period of 1948 but also of the excess of imports.

1. Imports

If shown in Yen value, the percentage of goods imported during the Jan.—Jun. period of 1948 is approximately.

A. Necessaries of Life	76%
Foodstuffs	49%
Salt	3%
Fertilizers	6%
Petroleum (for fishing)	16%
Others	2%
B. Raw materials for Export	
Goods	13%
Textiles	10%
(Cotton)	(5.7%)
(Hemp)	(2 %)
Raw Rubber	—
Resin	3%
Leather	—
C. Basic Materials for Reconstruction	11%
Heavy Chemicals (including dyestuffs)	4%
Metals & Mine Products	3%
Coal (for iron manufacture)	2%
Machinery	1%
Others	1%

11.—Exports

Classified by categories, the export of textiles and other articles in the first six-month period of 1948 is as follows:

	1948	1947
Textiles	60%	55.54%
Sundry Goods	14%	9.27%
Agricultural & Marine Products	8%	9.96%
Coal	5%	7.62%
Machinery	4%	6.08%
Metals	3%	2.16%
Others	6%	9.37%

Private export contracts during the first six-month period of this year

The amount of restricted private export contracts commencing with September last year is as follows:

Contracts in US dollars		
Sept. 1947	\$	1,349,314
Oct.		1,853,129
Nov.		1,472,879
Dec.		3,156,745
Jan. 1948		6,721,338
Feb.		4,977,871
Mar.		10,809,915
Apr.		12,880,278
May		19,624,393
Jun.		22,256,459
Contracts in sterling		
Nov. 1947	£	10,794
Dec.		226,249
Jan. 1948		237,944
Exch. @ \$ 4.03		
	\$	955,289
Total		\$86,095,683

The amount of contracts increased monthly, especially in the first six-month period of 1948, the contracts reaching 77 million yen. The results are very good even in comparison with the total export amount last year (173 million yen).

NEW EXPORT PROCEDURE

On Aug. 15, 1948 an important revision was made, aiming at the promotion of private trade. Compare our issue of October 20, pages 403/04, for details of regulations. The salient points of the revision are as follows:

a) Japanese private exporters are allowed to be parties to the export contract.

The postwar Japanese trade was controlled by the Supreme Commander for the Allied Powers. Even when the restricted private trade was commenced on Aug. 15 last year the contract document was signed by the Trade Board as the only seller, in case an agreement was reached in a trade talk between Japanese exporters and foreign buyers or their agents.

Thus the exporters who actually promoted negotiations merely played a part of suppliers and were responsible for the loading of cargoes. Even if export goods were their own property they were requested to sell them to the Trade Board, and only received

payment in yen from the trade funds for the value of export articles calculated by the controlled price standard, together with the actual expenses required for shipping and a commission at the fixed rate.

However, this practice was altered on Aug. 15, 1948. Since then Japanese exporters have been allowed to sign the document of contract as sellers (A prescribed form is used in principle. But another form is sometimes recognised as an exception).

The contract becomes effective if approved by the Trade Board and validated by the Supreme Commander for the Allied Powers. The day on which the contract is validated by SCAP is taken as its formal date.

A letter of credit is opened in favour of the private exporters as beneficiaries who have become sellers. After shipment is made, bank documents are prepared under the name of the seller and sent through the bank together with the export bill drawn according to the letter of credit to the drawee of such bill.

In case a claim should arise, the seller will go into negotiations as a party directly responsible and, if necessary, pay recompenses. But as Japanese private exporters can not acquire foreign money yet, they have to pay Yen value corresponding to such recompenses to the Trade Board. Then going through the same board and SCAP, the payment of compensations will be made in foreign money from the commercial account of SCAP.

b) It has become possible to fix freely the price of export goods above the floor price.

Trade talks have hitherto been conducted on the basis of the firm price announced by the Trade Board. Excepting that 5 per cent discount was allowed on the item whose shipment exceeded the prescribed amount all negotiations were ruled by the firm price. Therefore, strange to say, higher offers by the buyer were rejected.

But hereafter, the seller and the buyer can freely fix prices with the above-mentioned firm prices as the floor. This is of great significance for the promotion of private trade and development of export.

c) Domestic procedure for export has been simplified.

Since trade was conducted under the special circumstances of occupation, it was quite inevitable that complicated proceedings had to be gone through and long time was taken. But such conditions have gradually been improved, and the public has become well acquainted with the export procedure, and little complaint is heard. Due to recent extensive revision, the procedure has become much easier to follow. It is expected that the new rule will greatly help to promote trade talks and conclude contracts.

d) The Government-to-Government trade has been amended.

As in the case of private trade, the Government-to-Government trade has

been revised simultaneously. The major items of revision are that the proceedings have been streamlined and direct talks with foreign missions have been permitted.

The Japanese Government will try to broaden the scope of private trade as much as possible. For instance, raw silk, tea and cotton cloth handled by the Government have recently been allowed to enter the field of private trade. It is expected that the Government will further release the state-owned textiles in order to review the credit and trade-mark of private exporters and develop their devices.

e) Import will be of more civilian type.

Though not included in the recent announcement of the revised procedure, imports, too, show the activities of private traders. A large number of import contracts have been signed between the Trade Board and foreign private traders.

Japanese importers are given chances to utilize their experience and knowledge. Their activities will be further broadened in future, and the time will come soon when civilian-to-civilian transactions are authorised.

TEXTILES PRODUCTION IN JAPAN

	June	July
Cotton Yarn Production (1,000 lbs):—		
Cotton Spinners	23,369	23,036
Cotton Waste Yarn Production (1,000 lbs):—		
Cotton Spinners	156	207
Cotton Cloth Production (1000 lbs):—		
Independent		
weavers	44,455	43,099
Spinner weavers	33,344	34,726
Other weavers	14	14
Number of Spindles:—		
Installed	3,259,580	3,281,828
Operable	3,139,936	3,178,240
Operating	2,201,156	2,292,277
Number of Looms:—		
Installed		
Independent		
weavers ..	133,620	135,979
Spinner weavers	39,263	39,712
Total	172,883	175,691
Operable		
Independent		
weavers ..	130,308	132,969
Spinner weavers	38,344	38,496
Total	168,652	171,465
Operating		
Independent		
weavers ..	84,419	83,674
Spinner weavers	29,858	31,558
Total	114,270	115,232
Filament Rayon Yarn (1,000 lbs)	3,238	3,371
Rayon Staple (1,000 lbs) ...	3,609	4,075
Spun Rayon Yarn (1,000 lbs) ...	2,083	2,051

EXCHANGE & FINANCIAL MARKETS

U.S. DOLLAR MARKET

The international strength of sterling influenced local exchange dealers and speculators who are now adopting a very careful attitude regarding purchases of funds in New York for other than merchant and gold import requirements. While until a short while ago the local unofficial cross rate was ahead of New York and European free exchange markets, at times by 10 to 12%, the situation has now changed and several overseas markets quote a freely convertible sterling rate, in terms of US\$, above the Hongkong unofficial price, Tangiers, where an open exchange market is in operation, has recently advanced the cross rate to 3.15 to 3.20 and many European unofficial markets quoted last week at 3 and over. In New York there was consistent enquiry for U. K. resident account sterling and Bank of England notes found buyers up to 2.97. Zurich saw transactions at a cross of 2.95 to 2.98, Paris and Milan at similar levels while Brussels was one or two points lower.

The local cross rates last week were 3.061, high, and 3.027, low. Highest and lowest rates per US\$ 100 in HK\$:—notes 525—518½; drafts 527—519½; TT 528½—522½ (equalling US\$ 18.921 and 19.129 for HK\$ 100). Against the official parity the depreciation of HK\$ on the free market amounted last week to 23½ to 24.3%.

Observers of developments in the U. K. and the Commonwealth are impressed with the steady progress in all fields of economic activity, particularly the improving results of Britain's export drive, the accumulation of internal

and external credits, the increasing budget surplus, and the full success of the planned national economy program with which the name of Sir Stafford Cripps will always remain associated. If there were any doubts about the recovery of Britain in the immediate future the American credits to Western Europe have dispelled them entirely.

Slowly, the position of sterling as the world's principal trading currency reasserts itself. In China, however, there still remains so great an attraction, almost worship, of the US\$ that even further international advance in the unofficial sterling rate may not impress investors and flight capitalists. For them the U. S. A. is the earthly paradise and to possess some paper symbols of this paradise appears as the supreme goal of a large number of the upper-crust.

Last week's buyers were mostly gold importers who, however, towards the close turned sellers as further imports were suspended in view of the heavy deliveries in Macao, and limited sales to China and other Far Eastern customers which caused lower prices. Merchant demand was insignificant in the TT sector while there were larger parcels of notes and also some drafts taken in by importers—or on their behalf by negotiating banks—for the purpose of depositing them here with authorised banks in order to secure the opening of a letter of credit abroad. There is regularly bought in the local free market a relatively large amount of US notes and drafts for the purpose of L/C openings.

There should be a shortlived upswing in TT New York demand as soon as the U. S. maritime strike has been settled and ships resume their Hongkong runs. A considerable backlog in orders has piled up and when these goods, accumulated for over 2 months, will be unloaded here within a matter of 2 or 3 weeks—ships will certainly carry capacity loads—importers may become insistent buyers thus driving up the free market price. Many importers have however during the last few weeks covered part of their future commitments at rates which they consider low in relation to expected levels.

Overseas Chinese remittances were again increasing and drafts from the Philippines (in US\$) were arriving in bigger denominations. Also some Chinese in Siam remitted US\$ drafts to their relatives; on the free exchange market of Bangkok US draft are freely available and many remittances prefer to receive such drafts although it does not make any difference to the remitters whether a £ or US\$ draft is dispatched since such purchases have to be made in Siam at the open market rate.

As a result of the continued worsening of general conditions in China and the lack of trust on the part of overseas Chinese in the ever changing regulations and also the bona fides of the Nanking authorities the inward flow of remittances from this source should

considerably increase here during the next few months. Possibly, about US\$ 4 to 5 million per month from overseas remittances may now be expected; less conservative estimates put this figure some 50% higher.

The local market, deprived as it is from engaging in sterling-dollar arbitrage, may find it difficult to digest such regular offerings and therefore a lower trend is anticipated. That heavy remittances will be made between now and Chinese New Year is taken for granted and consequently the open market quotation should recede. This development is supported by the firmness of sterling abroad and the attitude of importers and dealers who, even with partly cleared stocks, no longer hasten to replace but prefer to remain liquid.

The unknown factor in the local free exchange market is the gold import position. Only increased offtake, principally by Chinese investors and merchants without cargo, can firm up the price and thus induce new imports via Macao. Unless output demand materially improves and active trading in China is re-established there cannot be any real inducement to buy gold abroad. Considering the spreading poverty in China the outlook for bigger sales is discouraging and it appears therefore improbable that large gold imports will be effected between now and Chinese New Year.

Sales in the native exchange market last week:—TT US\$ 1,190,000; drafts US\$ 570,000; notes 359,000. Inter-merchant sales were reported as small; some tung oil export proceeds were taken up by importers, directly or through private brokers.

GOLD MARKETS

Local and overseas markets ruled easy and there is as yet no sign of an improvement. The China market remains very quiet and as its state of prosperity or misery determines the local price level no bullish view can be taken now or in the near future. Exports to China are a mere trickle of what they used to be earlier in the year.

At the same time impatient bullion dealers, satisfied with a fraction of the profit they used to consider as attractive some 6 to 8 months ago, still bring in their precious cargo. Stocks are piling up and the local and Macao markets obviously suffer from indigestion. But native banks and bullion dealers have to cover their overheads and, in sanguine expectation of a change of the trading position for the better, they get stuck with gold to such extent that many smaller dealers without adequate overdraft facilities are completely immobilised.

New gold shipments were unloaded last week in Macao and the only beneficiaries at the moment are the Macao Government who earn a \$2 to \$3 per

	June	July
Filament Royon Cloth (1,000 sq. yds)	2,361	2,380
Spun Rayon Cloth (1,000 sq. yds)	4,716	4,205
Filament Silk Cloth (1,000 sq. yds)	8,099	7,797
Spun Silk Cloth (1,000 sq. yds)	1,556	1,012
Silk Mixture Cloth (1,000 sq. yds)	672	881

Cotton yarn production in July decreased about 1% compared with June, in spite of the favourable turn of electric supply in Shikoku and Chugoku districts. The reduction is mainly attributed to the uncertainty in cotton supply situation.

Total amount of cotton cloth production in July increased about 1% compared with preceding month.

Compared with June production the July figures of filament rayon yarn and rayon staple increased about 4% and 13% respectively. This was the peak after war and is attributed to the favourable receipts of raw materials and better production conditions.

oz. import duty and those interests which are in control of the gold import licences. The so-called ready made permit fee is still \$9 per oz but a few overbought gold import licence speculators sold lower and at a loss. It is one of the curious features of the local gold market that there is even speculation in Macao gold import licences which, at first, are retained by certain "appointed" native banks and then either used up by importers or "hoarded" by speculators in the anticipation of getting a premium at a later time when demand for gold import licences may improve and the licence-peddling native banks run short of supply or, in order to cash in on an improved market, raise their "fees."

Local market highest & lowest rates last week, per tael, \$306—\$299½; crosses US\$ 47¾—47. Macao quoted on the average \$4 to 6 lower, Canton \$2 to 4 higher, but during a few days at par with Hongkong.

Overseas supply has been easy, prices for foreign port, between US\$ 43 to 44¼.

Sales in the native market:—spot: inside Exchange Society: 7,105 taels, outside: 40,220 taels. Forward transactions: 555,750 taels (only a very small percentage of this quantity is sold for actual future delivery, most of it is purely speculative and settled between buyers and sellers by paying the difference or carrying on the position and paying daily interest plus commission charges); on the position clearing market a total of 567,450 taels were carried forward during the week (this fictitious amount of taels of gold represents the unsettled position as recorded by the Gold Exchange Society but falls short of the total uncleared position in Hongkong since many native banks among themselves and also with well-known clients keep positions, with or without margins deposited, which are of a private nature). Many forward speculators enjoy credit facilities with native banks which in fact work out to free the speculator from making any down payment although the margin money stipulated by Exchange regulations is \$75 per tael and the more or less customary margin for well-introduced clients is \$30. For many weeks past the overbrought speculation has been paying "tribute" at approx. 10 cents per tael per day.

Trading Reports for the week:—

Monday, Nov. 15:—Opening & closing rates \$306.—304. On the fictitious forward market the change over favoured the sellers at the interest rate of 19 H. K. cents per tael per day. Throughout the week the change over rate remained in favour of sellers. The opening rate of 306 was the highest of the week under review.

Large stocks here and in Macao, together with further arrivals there, a record turn over of 12,840 taels of cash bars in a single day and highest interest rate for the last two months were features of an outstanding day. Rates declined on sterling recoveries abroad and lower U.S.\$ T.T. rates here,

Tuesday, Nov. 16:—Opening & closing 304¼—304-3/8. Change over 4 cents. Tradings were not small but with little changes in rates.

Wednesday, Nov. 17:—Opening & closing 304½—304. Change over 8 cents. Market quiet with easier undertone and trading reduced.

Thursday, Nov. 18:—Opening & closing 303¾—301½. Change over 10 cents. Rates sliding down slowly as gold prices in Shanghai and Canton were lower, but checked by cost of importing gold.

Friday, Nov. 19:—Opening & closing 302.—302. Change over 12 cents. The lowest of the week 299-3/4 touched, on news of further arrivals in Macao to be expected shortly and liquidation sales by bulls.

Saturday, Nov. 20:—Opening & closing 301½—301. Change over 7 cents. Average rates receded day after day during the whole week. Recovery in the nearest future was not expected. In the unofficial afternoon market some business done at 301-3/8.

Trading Position:—

Total cash bars turned over during the week, officially 7,105 taels and unofficially 40,220 taels. Over 30,000 taels changed hands by interest hedging forward operators, part of them being arranged for mortgages with local banks. About 11,500 taels exported and some for local ornamental consumption and investment. Shanghai and Canton hoarders here turned disposing, instead of absorbing, some quantities of their holdings; the expected Chinese Government selling for cash needed for other purposes may be the reasons.

Imports and Exports:—Imports during the week from Macao amounted to 25,000 taels, exports totalled 11,500 taels, leaving a balance of 13,500 taels added to the local stock. Detailed exports were: Singapore 4,500 taels, Bangkok 4,000 taels, India 1,000 taels, Rangoon, Haiphong, Swatow and Amoy 500 taels each.

SILVER BUSINESS

Quotations abroad remained unchanged and there were no developments in China which changed the present lull in trading. Sales in the native exchange were: 52,200 taels, \$16,000 and \$72,000 worth of dollar and 20 cents coins.

During the week under review, imports were almost nil, trading was limited with little changes in prices. The highest and lowest prices were, Bar Silver 4.00—3.96. per tael, Dollar Coins 2.61—2.56 per coin and Twenty-cent Coins 2.00—1.95 per five coins.

PLATINUM BUSINESS

Little if any interest was evinced in Shanghai as gold trading resumed although still at a cautious pace. Sellers quoted Yuan 2,500 and over per oz, which would correspond to about HK\$ 500 per tael. Japanese plates quoted

in Tokyo at Yen 2½ million per oz; with yen rates on the black market around 300 to 330 per US\$ 1, this price appears high. Local prices for platinum from Japan came down to \$450 per tael. London stamped platinum was nominally at \$560 per tael.

CHINESE CURRENCY MARKETS

Inflation of the new yuan currency was speeded up, notes of 50 and 100 yuan denomination were pumped into all Chinese cities, and Nanking orders for the printing of new yuan notes, previously produced only by a British and an American bank note company (in 1945 but hoarded by the Chinese Government until August 1948), were placed with many printing plants in the interior as well as with a local printing firm, the Chung Wah Printing Press.

There was nevertheless stringent tightness of money in a number of South China cities especially Amoy and Swatow. Demand for yuan notes is so large that the Central Bank so far has been unable to cope with it. As the value of the yuan in terms of foreign exchange and commodity prices is slumping and the general expectation is that it will further depreciate the Central Bank's stock of yuan notes is bound to be exhausted and only new and fast printing can obviate the serious consequences and hardships to be endured by the people in the wake of a tight money situation. Other means of payment, like private cheques, silver coins, bank managers' cheques etc. have meanwhile reestablished themselves in many cities in Central and South China.

Hongkong Market:—Sales in the native unofficial market (in million yuan) TT Shanghai 10; TT and DD Canton 21.6; TT Swatow 6.43; TT Amoy 8.4. Large private transactions were reported which were not recorded by exchange brokers. Yuan notes sold last week: 2,860,000.

Highest & lowest prices, per Ten Yuan, in HK\$:—

	High	Low	Depreciation against parity (0.2666)
Notes	2.55	2.30	+0.71—13.72%
TT Shanghai	2.00	1.50	24.98—43.73%
TT Canton	2.22½	1.90	16.54—28.73%

Shanghai Market:—The underground re-emerged; the black market is showing signs of vigour and many are celebrating the "retirement" and the rush of resignations of so many "economic supervisors & controllers."

Highest & lowest prices of last week, in yuan:—

	High	Low	Appreciation over official rates
Gold per oz.	1,700	1,400	40.00—70%
U.S. note	36½	30	50.00—82½%
H.K. note	6½	5.30	41.35—73.45%

Gold crosses moved between US\$ 44 to 51. HK cross between US\$ 16.66 to 18.86.

Canton prices for HK notes: yuan 5, high, 3.95, low.

DIAMOND MARKET

It has been again a somewhat quiet week for the local diamond market. Sales in Shanghai have however improved and the market is gradually regaining its normal pre August 19th aspect. Dealers and investors are offering their large off colour diamonds which they purchased as a safeguard during the recent monetary crisis for the purpose of buying regular quality goods which are now obtainable in Hongkong.

The recent arrival in the Colony of senior members of the Diamond Trade who are well known in London and Amsterdam all point to Hongkong becoming an important diamond centre. It is also noticeable that a number of the merchants who left the Colony for Singapore at the time Government imposed restrictions are now returning and are setting up their headquarters here.

CHARTERED BANK'S HAMBURG OFFICE

The Chartered Bank of India, Australia & China have recently reopened their office in Hamburg which is now transacting any kind of banking business in their pre-war premises at 2a, Boersenbruecks, Hamburg (11). Expansion of trade between the Far East and the Western zone of Germany has necessitated the re-opening of the Bank's office.

BANK NOTE MARKETS

Bank of England notes found eager buyers but supply was becoming short. The advancing rate in New York where an equivalent price of HK\$ 15.30 to 15.80 was paid stimulated local enquiry. The week's highest & lowest rates were here \$14.50—15.20, the latter price only 5% below parity.

Piastre sellers were much in evidence and lower levels resulted. Saigon and Haiphong quoted daily better unofficial rates for HK\$ and foreign exchange. Highest and lowest rates were here: \$9.82½—9.55 per 100 piastres. Sales in the native market:—spot, inside Exchange: 3,440,000 piastres, outside 4,340,000; forward 5,750,000 piastres.

Nica guilders advanced from \$33.30 to 36.40, Java guilders from \$32.20 to 35.20 per 100 Sales in the native market totalled: 282,000 guilders.

Baht notes were quiet between \$26.-20 and 26.30.

AMERICAN EXPRESS CO. INC.

The Hongkong branch office of American Express Co. Inc., one of the four U.S. banks operating in the Colony, is conducting commercial banking business of any description in addition to its travel agency business. The American Express Co. Inc. are a member bank of Hongkong Exchange Banks' Association, and of Hongkong Bankers' Clearing-House, being one of the 33 local authorised exchange banks.

* * * *

LOCAL BUSINESS CONDITIONS

Money has turned much easier during the last few weeks as a result of continued liquidations of old stocks. Importers and dealers were able to realise cash for their cargo which had been in storage for many months, in several cases even for much over one year. The protracted U.S. maritime strike has helped in the clearance of particularly American goods. A better off-take was reported by textile dealers—a seasonal development—who are the most heavily overbought ones in the Colony.

However, losses were incurred in a number of liquidations as otherwise

HONGKONG UNOFFICIAL EXCHANGE RATES

(In H.K. dollars)

November	Gold per tael		Silver per tael	Per 10 Chinese Yuan						U.S. Dollar			
	High	Low		Notes High	Notes Low	T.T. Shanghai High	T.T. Shanghai Low	T.T. Canton High	T.T. Canton Low	Note	Draft	T.T. New York High	T.T. New York Low
15	206	302¼	4.00	2.85	2.32½	2.00	1.95	2.22½	2.20	5.25	5.27	5.28½	5.24
16	305¼	303	3.98	2.82½	2.57½	1.75	1.70	1.90	1.90	5.23	5.24	5.27	5.24½
17	304¾	303¼	3.98	2.70	2.42½	1.60	1.55	2.10	2.00	5.23	5.23	5.26½	5.25¼
18	304¾	301¼	3.96	2.72½	2.30	1.52½	1.50	2.05	2.00	5.20	5.22	5.26	5.23½
19	302½	299¾	3.96	2.62½	2.42½	1.70	1.65	2.15	2.10	5.20	5.21	5.23½	5.22¾
20	302¼	300¾	3.97	2.48¾	2.32½	1.90	1.80	2.22½	2.20	5.18	5.20	5.23¾	5.23

no sales could have been effected. Replacement costs were often in excess of liquidation proceeds. The problem for merchants was and remains to be whether to sell at cost or at some small loss although overseas export prices are high, or to keep their stocks until profitable disposal appears possible again. High production costs in Europe and America encourage local holders to wait for an improvement in local wholesale levels; the most cogent argument is that the overstocked local market, suffering from congestion on account of the slump in China, must sooner or later return to less opulent times when the buyers' "squeeze" will no longer be effective. How many importers and dealers, with bulging stocks in the Colony's godowns, can afford to wait nonchalantly for that turn remains to be seen. The financially weaker dealers may, as they already were compelled to do, liquidate their overbought position, take a licking in the conviction that current losses will be recouped at a later occasion, and try to re-invest their newly regained funds in a new enterprise which promises a fair return.

Warehouse space here is now more freely available than 2 or 3 months ago. Still, the amount of cargo stored is considerably in excess of the average of normal times. Most godown companies are earning high profits and have every reason to be satisfied with the business of the current year. Shareholders of public godown companies should also receive, in the form of good dividends, what is their due.

Exports to China which were above this year's average in September have again relapsed to a state of stagnation but the individual carrying of goods from the Colony to Canton and other nearby Chinese cities and the countryside has noticeably expanded. In border traffic much cargo is brought in and out of the Colony which passes without registration as it is described as travellers' luggage. Thousands of passengers by sea and railway are merely shop foks from Canton who are sent to Hongkong for the purpose of buying some article of personal wear, a woollen blanket etc. This sort of traffic is profitable as one day's expenses are small compared to the difference obtaining for imported goods in Hongkong and Canton. In the aggregate, not inconsiderable quantities of goods are thus carried out of local godowns which has been a great help in reducing the commodity plethora from which Hongkong merchants have now been suffering for so long that it appeared to many as a chronic economic malady.

Further liquidations at sacrifice are anticipated for the next few months as banks and creditors are not usually willing to extend continually loans and overdrafts. Interest rate is paid at 5% by most commercial firms when dealing with leading banks in the Colony but smaller banks have exacted usually from 8

HONGKONG STOCK & SHARE MARKET

Prices drifted lower with less interest displayed in the market during the week, Nov. 15 to Nov. 19. Trading generally was reported to have been at a slow pace. As a consequence volume tapered appreciably.

Most of the gains made in the substantial rally towards the end of October have now been pared off. In many instances quotations receded close to the year's lows. The new quotation of China Light, however, is an exception. The present price is ex the final dividend of \$1 per share, and the right to subscribe to the new issue in the proportion of 2 new shares for every three shares held on the 20th November.

to 12% p.a. although loans were not granted at more than 30 to 40% of market value of commodities. The situation as regards native banks and private money lenders' interest charges has not undergone any change during the year which fact shows that money tightness was never very serious throughout 1948. First mortgages were usually subject by native financial institutions to an interest charge of 1 to 1½% per month.

Although the previously tight money position has been alleviated during recent weeks, merchants are not inclined to invest in local stocks and shares, despite the fact that first-rate securities pay, at the current price and computed at last year's dividend as well as based on the excellent working reports of 1948, about 7 to 9%. Such a high yield in a stable currency is most unusual but is partly explained by the financial pressure under which importers and dealers have been labouring this year.

The retail market is similarly affected; although retailers have had another very prosperous year they find that they were too optimistic about the quick expansion of local buying power and as a consequence they find themselves heavily overbought, which of course does not mean that the majority is dissatisfied with this state of affairs. Prices of dealers are now much reduced, however, compared to the earlier months of the current year and local stores had better not rushed into laying in stocks when dealers were making tempting offers which later proved 10 and 20% above present levels.

Some lack of confidence in the stability of the HK\$ earlier this year was also responsible for the buying rush and the anxiousness to keep as low as possible a cash balance. Those who did not divest themselves of funds and even increased their credits were amply rewarded for their cautiousness and prudence (or possibly only luck) as they could strike bargains with almost every importer, dealer and commodity hoarder.

London registered Hongkong Banks recovered £4 to £104 but it did not stir traders from their apparently overcautious attitude.

The market awaits a dividend declaration by A.S. WATSON & Co. whose financial year ended on 30th October. The Company is reported to have had a record year both in Aerated Waters and the export of its patent medicines. The new factory in Kowloon for which additional capital was realised last year is expected to be completed by March 1949. Its completion will boost production to a level to meet the ever increasing output demand for its products.

Total sales reported amounted to 62,131 shares of an approximate value of \$1¼ million, a decline of ½ million compared with the previous week.

The Felix Ellis price index based on the closing prices of twelve representative active local stocks declined to 137.87 at the close of trading for the week for a net loss of 2.02 compared with the close of preceding week. Half of the decline is represented by the marking down of CHINA LIGHTS to Ex dividend and Ex Rights. Day-by-day his averages were: Nov. 15, 139.66; Nov. 16, 139.56; Nov. 17, 139.42; Nov. 18, 138.86; Nov. 19, 137.87.

The High and Low for 1947 were 155.82 and 123.88 respectively. The High for 1948 was 148.68 on February 12, while the low was 136.70 on October 19th.

Business Done:

GOVT. LOANS: 4% @ 102; 3½% (1948) @ Par plus Int.

BANKS: H.K. Banks @ 1950, 1930, 1900.

INSURANCE: Canton Ins. @ 375; Unions @ 745, 747½, 745; H.K. Fires @ 275.

SHIPPING: Indo China Def. @ 255.

DOCKS & GODOWNS: Wharves Old @ 134; H.K. Docks @ 30, 29½, 29.

ROTELS & LANDS: H.K. Hotels @ 14½, 14.40, 14.20; Lands @ 67½, 66½, 66, 68; S'hai Lands @ 5.70, 5, 4.60, 4.70.

UTILITIES: H.K. Trams @ 20, 20½, 20.30, 20.20, 20.30, 20.30; Star Ferries @ 135; Lights Old @ 22.20, 22.30, 22½, 22.60, 22.70, 22.80, 23, 23.20, 23.30, 23.20, 23.10, 23, 22.90, 23, 22.80, 22.90, 22.80, 23 and New @ 21, 21.70; H.K. Electrics @ 37½, 38, 38½, 38, 37½; Macao Electrics 24¾; Telephones @ 35.

INDUSTRIALS: Cements @ 40½, 40¾, 40½, 40; H.K. Ropes @ 19½;

STORES: Dairy Farm New @ 44½; Watsons Old @ 58, 58¼; New @ 54¼, 54; China Emporium @ 9¾, 10; Kwong Sang Hong @ 142; Wing On Co. @ 115, 110; China Entertainments @ 36; Marsman (H.K.) @ 2, 2.15.

COTTONS: Ewos @ 15.80.

INDUSTRIES & COMMUNICATIONS OF CHINA

In a review of conditions of China's agricultural, mineral and manufacturing production during the year 1947, the Shanghai Securities Exchange Annual Report comes to the conclusion that there were shortages in every field. The current year has seen further and progressive deterioration which was mostly the consequence of extended civil war operations. When final figures for the production in 1948 will become known the all-round decline will reveal the degree of national impoverishment to which the China of today has been reduced.

Foreign trade, under conditions of unrelenting war depredations and aggravated by the incompetent interference of the National Government in the business affairs of the citizens, could consequently only drop to the levels as observed this year. As has been admitted at Nanking, the export promotion drive of the authorities has failed in spite of strenuous efforts made by Chinese and foreign traders who were foiled in their good endeavours not so much by the effects of the military situation but by the "control policy" of economically untrained officials in collusion with a group of bureaucrats, members of the ruling family cliques, who went all out for the monopolisation of production, especially in minerals and in manufacturing.

While in 1947 some portion of Manchurian (North East) production was still available for consumption in China proper as well as for exports, the recent victories of the Communist armies have deprived the National Government of the resources not only of Manchuria but also of North China. The continued operation of manufacturing industries is possible only through the deliveries of American aid supplies.

Following is the report by the Shanghai Securities Exchange giving production figures of 1947 for major agricultural and mining produce as well as for manufactured goods.

* * * *

The national productivity in 1947 showed a decline compared with pre-war levels. The degree of decline was not as serious as was generally supposed. Actual production in the various field of industrial endeavour for the year 1946 was as follows:—Agricultural production (including husbandry, lumber and fishery)—92 percent of 1936 level; Manufacturing production—76 percent of 1936 level; Mining production—44 percent of 1936 level; Communications and Transportation—83 percent of 1936 level; Commercial and other services—90 to 94 percent of 1936 level. The aggregate production was 86 percent of the pre-war level.

The general decline recorded in all fields of production in 1946 was mainly due to the effects of increased post-war currency issue, and the extension of military operations. The economic conditions in 1947 showed no marked improvement. The scope of military operations was further extended, the transportation system was paralyzed, and the circumstances surrounding production activities were naturally rendered the more difficult.

Agricultural Production:—

Agricultural production in China consisted mainly of foodstuffs. Bumper harvests were reported from the provinces along the Yangtze. In the North, the Northeast and the South, drought and military operations affected the crops. Speaking of the region known as China Proper, the cereals production for 1947 was 2,040 million market piculs (=50 kg.) representing a 7 percent increase over 1946; production of various kinds of beans was 260 million piculs, representing a 4 percent increase over 1946; production of root crop was 530 million piculs, a decrease of 2 percent compared with 1946; and production of seeds was 130 million piculs, an increase of 10 percent over 1946. There was a surplus in seeds after meeting food consumption needs. The other three groups, all converted into cereals, would give an increase of 20 million piculs over the previous year's production, but was still 60 million piculs less than pre-war.

Cotton production in 1947 was 10,740,000 piculs of 50 kgs an increase of 300,00 piculs over 1946, but only 63 percent of prewar. This quantity was still much less than required for self-sufficiency. Tung oil production was estimated at 60,000 tons, slightly in excess of that for 1946, but still only 50 percent of the prewar level. Production of tea showed a great decline. Taking only the Chi-men Black and Ping-sui Green varieties, prewar production was 280,000 cases, but in 1947 only 80,000 cases were produced, 32 percent of the former figure. Tobacco production increased by about 10 percent compared with prewar, the quantity produced in 1947 being about 14 million piculs. But consumption of this item was constantly on the increase and this quantity was not sufficient for domestic demands. All the agricultural products mentioned hold an important place in the farm product processing industries and foreign trade of the country. Other items like raw silk, wool and eggs are also important export commodities, but because of the low exchange rate, production had dropped more seriously, a fact reflected in the depression witnessed in the export trade in agricultural products and raw materials.

Though industrial development has been to some extent pursued in Taiwan, agriculture nevertheless remains to be the backbone of its production. Rice and sugar, more especially, have always been considered the two pillars of Taiwan economy. Before the

war, rice production reached 23 million piculs (of 50 kgs) annually, half of which was locally consumed, the remaining half exported. The two crops in 1947 yielded about 14 million piculs, which figure, though 40 percent in excess of 1946 production, was still only 80 percent of prewar. Sugar cane production also decreased. The highest production of sugar ever reached was 1,200,000 metric tons per year, but in 1947 only 86,000 metric tons were produced, because of the shrinkage in the area of cane plantation. For 1948, the plantation area is being extended to 88 million hectares, and sugar production may reach 300,000 metric tons.

Quantitatively, food production in 1947 was not much less than that of prewar days. The problems mainly arose out of the regional maladjustment of production and consumption. Wheat and flour produced in the North were locally consumed, and its marketing process was originally simple. But the development of the military situation in the course of the year disrupted communications, and production and consumption areas became increasingly isolated. Peiping and Tientsin especially felt the adverse effects. In the southern provinces, rice is the staple food, and its transportation is partly dependent on the Yangtze. The spread of military operation and the drought season in winter likewise gave rise to transportation difficulties.

Mining:—

Mining development was hampered both by the difficulty to restore damaged equipment and the instability prevailing in the mining districts. With the exception of a few mines situated in good locations and those producing much needed minerals, there was a general decline in production. The total production for 1947 was larger than that of 1946, but still much behind the prewar levels. In the 14 major minerals, only petroleum registered some increase over prewar figures, while decreases were marked in all other items.

The prewar coal production was 41 million tons, of which the Northeast was responsible for 33 percent, and North China 50 percent, the remainder being produced in Central and South China. The production in 1947 fell to 17 million tons, only 41 percent of the prewar figure. A number of large coal mines in the Northeast and North China, including Fushun, Pen-Chi, Sian, Pei-Piao, Fou-Hsin, Cheng-Ching, and Tze-Po, were either destroyed or affected by military operations so that extensive operation was impossible. Production being limited, marketing became a still more difficult problem. Production in the mines owned by the National Resources Commission in North China only produced a total of 380,000 tons, representing a 66 percent drop compared with 1946. The country at present consumes about 23 million tons a year, 35 percent in excess of the actual production of 1947. Areas lacking in coal, like Nanking, Shanghai and South China, depend on Kailan, Huainan, East China and Taiwan for supplies.

The exploitation of the country's petroleum resources started in 1939 with the Kansu oilfields owned by the National Resources Commission. After years of hard work, considerable success had been achieved. During the war, it contributed greatly to the supply of liquid fuel. After V-J Day, the Taiwan and Northeast oil refineries were taken over, and the China Petroleum Corporation was organized. In addition to seeking increased production, the Corporation assumes centralized control of the production, marketing and transportation of oil products. During 1947, about 400,000 barrels of crude oil were produced, this crude oil being refined into 7,500,000 gallons of gasoline, 3,400,000 gallons of kerosene, and 770,000 gallons of diesel oil, representing an approximate increase of 50 percent compared with 1946. These quantities are, however, much less than the needs of the country, and imports for 1947 represented nearly 90 percent of actual needs.

The metallurgical industry faced the greatest of difficulties in view of the drop in the demand for capital goods under existing conditions. The original metallurgical equipment, moreover, could not be restored immediately for operations. In 1947, the production from the major works at Anshan, North China and Szechuen included 48,000 tons of steel products, 4,000 tons of pig iron, while iron ore produced from the Chikiang Mine reached 17,000 tons. The production only averaged 10 percent the prewar level.

Copper, lead and zinc held the leading places among the non-ferrous metals. They constituted the basic materials for armament and were also widely utilized for the development of the electrical industry. China's production of these items had always been small. The mines, developed during the war in Szechuen, Sikang and Yunnan, have been thrown into a state of stagnation. As to the mines in the Northeast and Taiwan taken over by the National Resources Commission, though efforts were not spared in their development, limitations of capital and material made it possible to maintain only a small production, while the major portion of these assets were still in the stage of being restored. In 1947, therefore, the production of copper and copper products was only 1,400 tons, being 55 percent of the prewar production of 2,500 tons. Lead and zinc production was even smaller and negligible compared with prewar figures.

Wolfram, antimony and tin are special mineral products for export purposes, and are well-known in the international markets. During the war, however, these enterprises suffered from the interference of the enemy. Capital and material limitations after the war hampered development, while high wages and general expenses made it extremely difficult to meet production costs. While production could not be hiked, smuggling of ore shipments were rampant. During 1947, 5,500 tons of wolfram, 1,300 tons of antimony, and 1,200 tons of tin were produced. Both wolfram and antimony registered a more than 100 percent increase over 1946, while tin production showed a de-

cline of 33 percent. Compared with prewar levels, wolfram production was only 60 percent, while antimony as well as tin produced were only 10 percent of former quantities.

Manufacturing Industries

Production conditions in 1947 differed in the various branches, with some maintaining the prewar standards and others far from approaching those levels.

In the textile industry, post-war China possessed a total of more than 4,500,000 spindles, 470,000 doublers, and 64,000 looms. Of those, 1,760,000 spindles (39.3 percent) and 38,000 looms (57 percent) were enemy property taken over, and operated by the China Textile Industries, Incorporated. Before the war, textile production in China (June 1936 to June 1937) was about 2,200,000 bales (of 400 lbs.). During the first half of 1947, China Textile produced about 360,000 bales. Working on the proportionate spindleage owned by the Corporation, the total production in the country for the first half of 1947 would reach about 920,000 bales and the total for the year about 1,800,000 bales, which would be about 80 percent of the prewar level.

Flour, tobacco, cement and match industries: production figures for 1936 and 1946 as follows:

	1936	1946
Flour	62,000,000	60,000,000
(bags of 49 lbs.)		
Cigarettes	1,090,000	1,200,000
(cases of 50,000 packets)		
Cement	310,000	350,000
(metric tons)		
Match	700,000	760,000
(cases of 7,200 boxes)		

For the first half of 1947, increased production was noted for all the above industries except match, the increase being 20 percent for flour, 37 percent for cigarettes, and 40 percent for cement, while the match industry reported a decrease of 34 percent.

Of the industrial enterprises controlled by the National Resources Commission, production conditions also differed. The Commission operates 22 lines of industries, principally those connected with heavy industries, machinery, and chemicals. For the period from January to November, 1947, with the exception of the alcohol, alkali, sugar, cement and prime mover industries, there was a marked increase over previous year, in the production of other industrial goods, ranging from 16 to 340 percent.

The most noticeable difficulties confronting industry today are the lack of material supplies, insufficiency of power, antiquated equipment, high wages, and the unproportionate price rises of raw materials and manufactured products (statistics compiled by the

Agricultural Production in China Proper for 1947 (in 1,000 Piculs of 50 kgs.)

	1947	1947 Compared with 1946	1947 Compared with Prewar Years
Cereals	2,038,264	+	13,600
Beans & Peas	259,815	+	10,400
Root Crops	527,214	+	10,400
Seeds	133,109	+	11,529
Rice	905,155	+	12,310
Wheat	492,850	+	25,088
Kaoliang	98,374	-	10,597
Millet	132,257	-	22,790
Corn	150,131	-	2,643
Barley	138,099	+	12,141
Soybean	94,512	+	5,456
Potato	487,687	-	10,694
Raw Cotton	10,738	+	3,308
Tung Oil	120,000	-	69,000
Tea (Case)	80,000	-	16,000
Tobacco	13,780	+	1,407

Notes: The prewar average is for the years 1931-1937

Tea figures in cases and for Chimen Black Tea and Pingsui Green Tea only.

Tung oil figures in metric tons.

Minerals	Mineral Production in Unit	China for 1936 and 1947.		
		1936	1946	1947
Coal	1,000 M.T.	41,086	18,457	17,200
Crude Oil	M.T.	186,156	95,515	100,000
Gasoline	1,000 A.G.	1,339	5,155	7,461
Kerosene	1,000 A.G.	—	2,304	3,401
Diesel Oil	1,000 A.G.	—	381	774
Iron Ore	1,000 M.T.	3,360	15	17
Pig Iron	M.T.	788,850	1,538	4,346
Steel Ingot & Steel Products	M.T.	350,000	17,910	48,040
Copper	M.T.	2,539	1,038	1,435
Lead	M.T.	4,554	15	—
Zinc	M.T.	818	11	—
Wolfram	M.T.	9,763	2,260	5,486
Antimony	M.T.	14,333	426	1,336
Tin	M.T.	12,954	1,960	1,279

China Textile Industries for 1947 show that cotton prices increased by 1,900 percent, yarn prices by 1,386 percent, and cloth prices by 1,100 percent). As a result, the profits from hoarding of raw materials often exceeded profits from manufacture of industrial products. Production was thus greatly depressed, while the supply and demand of goods were all the more dislocated.

Communications

During 1947, all communication arteries were more or less in a state of paralysis as a result of the civil war.

At the time of the Japanese surrender, there were 30,310 kilometers of railways, of which 11,210 kilometers were in the Northeast. Since then, these lines were constantly subjected to damage, and by the end of 1947, more than 80 percent of the mileage in the Northeast were lost to government control. In China Proper also, the situation deteriorated considerably as compared with 1946. The railways were subject to some 1,450 attacks causing damage to more than 1,500 kilometers of roads; bridges were attacked 488 times, causing damage to 657 of the structures. At the end of 1947, therefore, only 13,264 kilometers of railways were open to traffic, a decrease of 17 percent. Under the continued attacks against the railways, a scarcity of materials was felt for the emergency repairs needed.

Before the war, China had built 109,000 kilometers of highways on which 60,000 vehicles operated. At the time of the Japanese surrender, only 49,600 kilometers were open to traffic, with 34,000 vehicles on them. Like the railways, the highways were subjected to constant damage, and losses were heavy. A total of 24,000 kilometers of highways have been rendered beyond control of the Government, while another 5,000 kilometers have been damaged. The mileage actually open to traffic was only about 33 percent of the prewar figure.

In the matter of navigation, China possessed before the war 576,000 tons of vessels, while 710,000 tons of foreign shipping also operated in the country, making a total of 1,280,000 tons. On V-J day, only 80,000 tons of China's vessels, both Government and private-owned, remained. In 1946, after the taking over of enemy property, the tonnage was increased to 297,000. In 1947, purchases were made from foreign countries. By November, 1947, the country was in possession of 3,317 vessels aggregating 951,826 tons. Though the tonnage of Chinese vessels exceeded the prewar figure, because of the ban by the Government on foreign vessels in China's inland waters, the total transportation capacity was actually reduced. Moreover, constant military movements of late increased the call for military service, and private navigation needs had not been fully met. Material resources in the country could not be freely distributed, with the result that the same commodity often had a discrepancy in prices in different parts of the country.

In civil aviation, both the China National Aviation Corporation and the Central Air Transport Corporation are state-owned. At the end of 1947, there were a total of 33 planes, but because

of the lack of accessories, only 63 machines were in actual service. In 1947, the C.N.A.C. allotted six planes specially for international and other long distance flights. The C.A.T.C., because of its lack of foreign exchange, did not as yet participate in long overseas services. The remaining fifty odd machines owned by the two firms operated services among the large cities. Owing to the shortage of aeronautical equipment, both passengers and freight traffic had so far been limited.

In tele-communications, new measures introduced included the international radio circuits which operated direct services between China and Europe, the U.S.A., South America and other foreign areas, through its twenty odd direct lines. Between Nanking and London as well as San Francisco, there are two direct wireless routes, including a radiophone service. Direct telephonic communication between Nanking, Shanghai and the United States was also resumed.

Principal Equipments of Textile Industry in China for 1947.

	State Operated	Private Operated	Total	In Operation	Shut Down
Spindles ...	1,758,480	2,761,080	4,519,560	3,849,400	670,120
Doublers ...	336,000	143,361	479,361	305,132	174,229
Looms ...	28,000	26,740	64,740	47,228	15,152

Amount of Production by the China Textile Industries Incorporated for 1947.

Products	Unit	1946	1947
Cotton Yarn	Bale	425,572	620,444
Cotton Piece Goods	1,000 Yards	379,957	529,826
Woolen Yarn	lb.	1,948,604	2,108,755
Woolen Piece Goods	Yards	1,225,880	1,671,018
Ramie Thread	lb.	3,098,870	6,385,369
Burlap	lb.	1,024,457	1,408,574
Gunny Bags	lb.	1,685,060	3,584,588

Amount of Production by The National Resources Commission for 1946 and 1947

Products	Unit	1946	1947
Electric Power	1,000 KWH	987,762	1,849,277
Gasoline	1,000 AG	5,058	7,461
Kerosene	1,000 AG	2,304	3,401
Diesel Oil	1,000 AG	381	774
Fuel Oil	1,000 AG	—	9,448
Natural Gas	1,000 Cu.M.	61,098	50,558
Commercial Alcohol	1,000 AG	3,392	1,483
Dye Stuff	M.T.	84	227
Fertilizer	M.T.	3,201	16,897
Acid	M.T.	988	4,592
Alkali	M.T.	3,441	3,375
Sugar	M.T.	86,073	30,883
Cement	M.T.	83,623	213,203
Paper & Paperware	M.T.	4,992	13,615
Pulp	M.T.	—	1,339
Transformer	KVA	5,021	20,074
Telephone Sets	Set	171	493
Transmitter & Receiver	Set	99	112
Radio Receiver	Set	125	102
Window Glass	Case	175,044	215,192
Rubber Tire for Auto	Pc.	96	369
Rubber Tire for Bicycle	Pc.	3,166	83,386
Machine Tools	Set	37.3	106.78
Processing Machine	Set	252.5	557.29
Prime Mover	Set	2,954.5	2,176.5